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ABSTRACT

This book describes recent improvements in governmental accounting, auditing, and financial reporting for school business officials. Applications of financial accounting and reporting principles in typical transactions of school systems are illustrated by questions, cases, and problems at the end of each chapter. The first of the two sections, "Basic Principles of Accounting for Elementary and Secondary School Systems," concerns accounting problems of school systems. Financial accounting and reporting principles are demonstrated by the fund and account group structure as recommended by school business organizations. Attention is focused on problems of cash flow, working capital, and causes of change in financial position of the general fund. This section develops budgetary accounting controls and financial reporting principles. The second section, "Accounting Principles as Applied to the Various Funds Used in Financial Administration of School Systems," addresses each fund and account group individually, showing how a school's financial structure can be divided into manageable, effective segments. The section includes the general fund, special revenue funds, capital project funds, and debt service funds. Financial transactions typical of those used in each fund and account group of a school system are illustrated. Interim and annual financial statements are given for formal budgetary type funds, and include balance sheets and statements comparing estimated or budgeted revenue with revenue realized. A glossary contains accounting terminology for school systems. (CJH)

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FINANCIAL AND MANAGERIAL ACCOUNTING FOR ELEMENTARY AND SECONDARY SCHOOL SYSTEMS

Third Edition

by
Sam B. Tidwell, C.P.A.
Professor of Accounting, Emeritus
School of Business and Engineering Administration
Michigan Technological University
Houghton, Michigan

published by
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for Elementary and Secondary School Systems, Third Edition

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FOREWORD

THE RESEARCH CORPORATION OF THE ASSOCIATION OF SCHOOL BUSINESS OFFICIALS (RCASBO) is proud to present *Financial and Managerial Accounting for Elementary and Secondary School Systems*. This is the third edition of the book that opened the door to development and use of generally accepted accounting principles by school systems.

In his doctoral dissertation, Dr. William E. Endicott, retired Assistant Superintendent of Pearl River School District, Pearl River, New York, credited the original book, *Public School Fund Accounting*, as the translator of governmental accounting principles into the language of school systems. The original book by the same author, Sam B. Tidwell, was published by Harper & Brothers Publishers, New York, N.Y., in 1960. Identified as the seminal book in its field, it was the forerunner to the first "Summary of Recommended Public School Accounting Principles and Procedures" adopted in 1964 by the Association of School Business Officials of the United States and Canada (ASBO). These principles and procedures were published by ASBO in its Information Bulletin No. 9.

This book is specifically designed to serve:

1) ALL who are interested in what's happening, financially speaking, in school systems;
2) PREPARERS of financial statements and reports;
3) OPERATORS of financial information systems; and
4) MANAGERS of financial information systems.

We, the Research Corporation, feel this book will contribute to improved management through use of current widely used concepts of fund accounting, including:

1) Internal Service Funds—used to provide supporting services by employees of the school district such as services of a central garage and transportation fund, a central purchasing and warehousing fund, a central maintenance fund, and a central computer services fund.

2) Enterprise Funds—used to provide other supporting services within the school system such as school food services, school bookstores, school newspapers and yearbooks.

3) Agency Funds—used for supporting services such as central payroll fund, central treasury fund, and student activity funds. The agency fund concept, when used in a central payroll fund, can simplify accounting and minimize the number of accounts needed in the general fund and in all other funds which employ people.

4) Capital Projects Funds—used to show how the school system acquires land and equipment and records the cost of construction of buildings paid from its revenue sources such as from the sale of bonds and revenue from other local, intermediate, state, provincial and federal sources.

5) Debt Service Funds—used to accumulate resources over long periods of time for retiring bonded debt and paying interest thereon. Particular emphasis is placed in this edition upon interim and annual financial reporting which informs the reader about the amount that has been provided to date for each outstanding bond issue and compares it with the amount required to date by each bond issue's accumulation schedule.

This book brings FINANCIAL ACCOUNTING AND REPORTING FOR SCHOOL SYSTEMS up to the 1980's. It utilizes improved financial management and accounting concepts recommended by:

1) The American Institute of Certified Public Accountants;
2) ASBO's Research Committee on Accounting;
3) The Governmental Accounting Standards Board;
4) The Governmental Financial Officers Association;
5) The National Center for Education Statistics, U.S. Department of Education; and
6) The Financial Accounting Standards Board.

You should know that this book is designed to serve all school systems, whether private or public, at the local, intermediate, state, province, or federal level, regardless of whether the school system uses either computers, data processing, mechanical, or manual methods of recording financial transactions.

Last, but not least, this book can be used for:

1) Professional development seminars;
2) In-service training programs;
3) Management seminars;

4) Development of individual professional competence; and
5) College and university courses designed to:
   A. Prepare students for positions in school financial administration at the local, state, provincial, or federal level.
   B. Prepare in-service staff members for continued growth in financial administration of school systems.
   C. Prepare students of accounting for positions on staffs of State Departments of Audit, Provincial Departments of Audit, and firms of Certified Public Accountants or Chartered Accountants.

Professionally yours,

Ronald A. Allen, CAE
Executive Director
Research Corporation, ASBO

February 1, 1985

PREFACE

Financial and Managerial Accounting for Elementary and Secondary School Systems is a third edition of the author's 1960 book, *Public School Fund Accounting Principles and Procedures*, published by Harper & Brothers Publishers, New York, N.Y. The first edition used a revenue and expenditure classification developed from the 1957 publication of the Office of Education, U.S. Department of Health, Education, and Welfare entitled *Financial Accounting for Local and State School Systems—Standard Receipt and Expenditure Accounts, Handbook II*. The handbook indicated the kinds of financial information needed for elementary and secondary school systems by organizations such as the American Association of School Administrators, the Association of School Business Officials of the United States and Canada, the Council of Chief State School Officers, and the National School Boards Association.

Prior to the 1960 edition of this book, school systems in the United States were not acutely aware of the improvements that had been made in standards of financial and managerial accounting as a result of abandoning the "cash basis" of financial accounting, a method of recording only selected financial transactions which was widely used prior to the Great Depression of the 1930s and the creation of the Securities and Exchange Commission in the early 1930s.

However, business entities registering securities for sale on the open market, market analysts and investors were aware of improvements that had been made in financial accounting since the 1930s. Improvements included recognition of other assets and resources, in addition to cash, as being as important in financial management as is cash itself. With the creation of the Securities and Exchange Commission, emphasis began to be placed upon development of generally accepted accounting principles and reporting procedures and creation of standards of auditing through the work of organizations such as the American Institute of Certified Public Accountants. At the same time, significant attention was being focused on municipal and governmental accounting by such organizations as the Muncicpal Finance Officers Association of the United States and Canada and its National Committee on Governmental Accounting now known as the National Council on Governmental Accounting. Because they were not directly affected by the Securities and Exchange Commission, school systems continued to place emphasis almost entirely on only cash transactions up until 1960.

Since 1960, school management has come to realize that assets and resources, in addition to cash, and a knowledge of what liabilities exist are as important to the school system in attaining its educational goals and objectives as cash itself. As a result, today school management is concerned with the total financial structure of the school system, the financial position and the current status of each of the funds and account groups used in financing education.

After observing the effectiveness of the work of the National Committee on Governmental Accounting of the Municipal Finance Officers Association of the United States and Canada, the Association of School Business Officials adopted a modification of the National Committee's "Summary of Recommended Accounting Principles and Procedures" in 1964. ASBO recognized by this action the effectiveness of the fund and account group structure as an effective financial structure for school systems. And ASBO became aware of the capacity that the concept of "double-entry bookkeeping" has to serve the financial and management needs of elementary and secondary school systems.

In 1967 the U.S. Office of Education published *Handbook II—Principles of Public School Accounting*. This was a major step in financial and managerial accounting for school systems because, through it, the Office of Education illustrated and encouraged the use of "double-entry bookkeeping" as the basis for financial accounting for school systems. With this action on the part of the Office of Education, emphasis strongly moved from the "cash basis" of recording only selected financial transactions to a basis of financial accounting that is referred to as "generally accepted accounting principles," a basis of accounting that is capable of meeting the requirements of major pieces of state and federal legislation such as the Elementary and Secondary Education Act of 1965. In its preface, the U.S. Office of Education's Handbook II-B stated: "At its annual meeting in October 1964 the Association of School Business Officials adopted a statement of accounting principles and procedures relating to public school accounting which came to be an important guide in the development of this handbook."

In 1968 the National Committee on Governmental Accounting revised its 1951 publication by issuing *Governmental Accounting, Auditing and Financial Reporting*. Having stood the test of exposure and implementation over a period of seventeen years, the National Committee on Governmental Accounting recommended some major improvements in the fund structure. Some of these improvements were of such significance to school systems that the Board of Directors of the Association of School Business Officials recommended their use in *Informational Bulletin No. 14, Guidelines to Establish a Certificate of Conformance Program for Financial Reporting by School Systems*, published by the Association in 1971. In 1980, a completely updated publication, *Certificate of Excellence in Financial Reporting by School Systems*, was released by ASBO describing ASBO's vital program to encourage school systems to adopt and use generally accepted accounting principles and sound budgetary and reporting procedures.

Many of the improvements contained in the 1968 publication of the National Committee on Governmental Accounting were included in *Handbook II, Revised, Financial Accounting Classifications and Standard Terminology for Local and State School Systems* published in 1973 by the National Center for Educational Statistics of the U.S. Office of Education. In June 1980, the National Center for Education Statistics published *Financial Accounting for Local and State School Systems* to replace its 1973 Handbook II, Revised. While it did not make major changes in the account classification system recommended in Handbook II, Revised, it did include a substantial reworking of the organization of the 1973 Handbook II, Revised, and the written supportive material.

In addition to these publications, other actions are taking place that will influence governmental accounting and financial accounting for school systems. Among these, since 1973, the Financial Accounting Standards Board (FASB) has been the designated organization in the private sector for establishing standards of financial accounting and reporting. Those standards are, in effect, rules governing the preparation of financial statements. FASB is funded by the Financial Accounting Foundation and in 1979 representatives of the Foundation entered into a series of informal discussions with representatives of other groups having an interest in state and local governmental accounting standards to consider possible ways to improve the structure for setting state and local governmental accounting standards. The discussions led to formation of the currently existing Governmental Accounting Standards Board funded by the Financial Accounting Foundation. Therefore, it appears that there will be a continuing study and effort to improve the structure for setting state and local governmental accounting standards, including school systems at the state and local levels.

As a result of the attention that has been focused upon governmental accounting and reporting as is indicated by these publications and actions, significant improvements in financial and managerial accounting have been recommended. Therefore, one of the purposes of the third edition of the author's 1960 book is to make these improvements in financial and managerial accounting more widely useful to school systems, to their financial administrators and boards of education, to governmental agencies at all levels which are involved in financing American and Canadian education, and to the many publics who are concerned with ways and means of providing financial support to education at the elementary and secondary levels.

Since publication of the second edition in 1974, attention of additional major segments of the financial world has been focused on governmental accounting, auditing, and financial reporting. One highlight was the 1974 publication of the American Institute of Certified Public Accountants entitled *Audits of State and Local Governmental Units*, Known as an Industry Audit Guide. This was a major event in governmental accounting because the American Institute of Certified Public Accountants acknowledged that the 1968 publication of the National Committee on Governmental Accounting entitled *Governmental Accounting, Auditing and Financial Reporting* was "an authoritative publication in the area of accounting for governmental units. . . ." This Industry Audit Guide was published for the guidance of members of the American Institute of Certified Public Accountants in examining and reporting on financial statements of state and local governmental units and members of the American Institute of CPAs were made aware that they may be called upon to justify departures from the recommendations of the committee releasing the audit guide. Amendments to the AICPA Industry Audit Guide, *Audits of State and Local Governmental Units*, were published in *Statement of Position 80-2, Accounting and Financial Reporting by Governmental Units*, June 30, 1980. Affecting the profession of accounting, the Office of Management and Budget initiated the "organization-wide single audit concept" that is imposed by OMB Circular 102, Attachment P. The American Institute of Certified Public Accountants has in working draft form an audit guide that in many cases will replace the present Industry Audit Guide. It is anticipated that this publication titled *Industry Audit Guide, Audits of State and Local Governments and Indian Tribal Governments Conducted Under the Audit Requirements of OMB Circular A-102, Attachment P* should be issued by early 1984.

In 1979 the National Council on Governmental Accounting revised its 1968 pronouncement by publishing *Statement 1, Governmental Accounting and Financial Reporting Principles*. Since it issued Statement 1, NCGA has issued six interpretations and others will be forthcoming. The Municipal Finance Officers Association of the United States and Canada introduced its 1980 edition of *Governmental Accounting, Auditing, and Financial Reporting*.

As was the first edition, the third edition is designed to provide an introduction to and an understanding of financial accounting and reporting principles and procedures as they apply to the fund and account group structure of elementary and secondary school systems. The book starts at the beginning or introductory level of accounting in the belief that its readers and users will range from those who are totally unfamiliar with accounting to those who have completed formal programs of study in governmental accounting. No previous education, training or experience in accounting is necessary to understand and use this book. Yet, it presents those governmental accounting and reporting concepts that were not covered in traditional college and university accounting courses which emphasized profit-making business entities. As a result, it is also designed for students of advanced accounting.

The book is designed to serve school board members, the chief school officer, school business officials, clerks, treasurers, controllers, finance directors, and members of their staff having accounting and financial responsibilities. These accounting and financial administration responsibilities include budgetary control, interim financial reporting, recording, bookkeeping and accounting duties. It is also aimed to serve people who are responsible for analyzing and recording financial transactions that occur in each of the funds used in management of a school system. Not only is the book concerned with analytical and recording techniques and procedures, but it also is concerned with financial reporting—reporting during the fiscal period when administrative actions have to be taken and when governing boards are faced with the necessity for making policy decisions. Emphasis is placed upon financial reporting as a timely, complete, and meaningful precision instrument for management of school funds during the fiscal period. The book stresses the use of accounting principles and practices that lead to unqualified opinions of certified public accountants or chartered accountants concerning the financial position, the results of operation, the changes in equities, and the changes in financial position of each fund and account group used by the school system. The book directs its attention toward financial transactions of a local school system, whether public or private, and progresses from an elementary level to the level of accounting recommended by the National Council on Governmental Accounting, the Municipal Finance Officers Association of the U.S. and Canada, the Association of School Business Officials of the U.S. and Canada, the National Center for Education Statistics of the U.S. Department of Education, and the American Institute of Certified Public Accountants.

Utilizing the concept of full disclosure of financial information about each fund, the book illustrates and stresses use of effective budgetary accounting principles and procedures. It urges the use of accounting and reporting practices that permit administrative officers to take timely action necessary to realize the maximum amounts of revenue available from each and all sources. It urges use of accounting and reporting practices that also safeguard the use of these resources through effective expenditure accounting controls.

Underlying other purposes of managerial accounting is its ability not only to safeguard financial resources dedicated to a school system but managerial accounting also has the capacity to provide standards of financial administration that safeguard the integrity of all employees of the school system who are in positions of financial responsibility, thereby making positions as members of school boards or as employees of school systems attractive as professional fields of work and as fields of public service.

This is an unusual book in that it uses the "fund concept" as the basis for getting directly to the problems of financial accounting and reporting for school systems rather than using the unrelated and inapplicable "commercial or profit-making concept" which uses a capital structure for individual proprietors, partners, or corporate stockholders. Yet, the underlying accounting theory, accounting equation, principles, procedures, and practices are consistent with the generally accepted language of business.

In addition to text material, this book contains a series of questions, cases, and problems at the end of each chapter. A cursory reading of the text provides a general picture of the problems related to accounting for funds and account groups used in the operation of a school system, but the questions, cases, and problems are designed to provide a deeper understanding of the accounting principles and procedures and an understanding of the effect of each financial transaction upon the school system. By answering the questions and solving the problems and cases, the reader can develop a sound basis and ability to analyze problems common to the financial operations of school systems. Proficiency is developed by actual experience in analyzing individual transactions, recording them, and presenting them in meaningful and timely financial reports and statements. These questions, cases, and problems, then, are presented with the belief that an understanding of financial accounting and reporting for school systems can be obtained best by application of principles to cases and problems rather than by memorizing rules, regulations, passages, and various forms.

I hear—I forget
I see—I remember
I do—I understand

Sam B. Tidwell

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John H. Bauer, Assistant Superintendent for Business Affairs, North Central School District, North Syracuse, New York;

Larry V. Binkley, Vice-Chairperson, ASBO Professional Development Research Committee, and Assistant Superintendent of Business and Finance, Gallup-McKinley County Public Schools, Gallup, New Mexico;

George E. Bissell, Jr., Chairperson, ASBO School Accounting Research Committee, and Financial Manager, School District of Pittsburgh, Pittsburgh, Pennsylvania;

Leo J. Burke, RSBA, Business Manager, The School Committee of the City of Boston, Boston, Massachusetts;

Dwight E. Collier, Chairperson, ASBO Internal Audit and Student Activity Research Committee and Chief Internal Auditor, Caddo Parish School Board, Shreveport, Louisiana;

Dennis L. Costerison, Chairperson, ASBO State/Province Departments of Education Research Committee, Associate Executive Director, and Director of Research and Management Services, Indiana School Boards Association, Indianapolis, Indiana;

Dr. Donald L. Hanson, Professor, Department of Educational Administration

and Counseling, University of Northern Iowa, Cedar Falls, Iowa;

A. Donald Hendricks, Superintendent, South Fork Community High School #310, Kindaid, Illinois;

Martin Ives, Vice-Chairman and Director of Research, Governmental Accounting Standards Board, Financial Accounting Foundation, Stamford, Connecticut;

Dr. Chester Kiser, Associate Professor, Department of Educational Organization, Administration and Policy, State University of New York at Buffalo, Amherst, New York;

Lloyd E. Livingston, Business Manager, Upper Bucks County Area Vocational Technical School, Perkasie, Pennsylvania;

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>
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>
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Carl G. Orne, CPA, Professor of Accounting, Department of Accounting, School of Business & Economics, California State University, Hayward, Hayward, California;

Suzette S. Pope, Chairperson, ASBO Federal Programs Special Committee; and Chief Accountant, Dade County Public Schools, Miami, Florida;

Edward E. Randall, Director of Audits, Texas Education Agency, Austin, Texas;

Dr. Creta D. Sabine, Professor, Emerita, Department of Educational Administration and Foundations, Illinois State University, Normal-Bloomington, Illinois;

Fred L. Schoneboom, Assistant Superintendent, Gull Lake Community Schools, Richland, Michigan;

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Robert Spencer, Chairperson, ASBO Data Processing Research Committee, and Manager, Computer Services, Board of Education for the City of York, Toronto, Ontario, Canada;

Harold L. Throop, Jr., Chairperson, Junior and Community College Research Committee, Association of School Business Officials of the U.S. and Canada, and Vice President-Business, El Camino Community College District, Torrance, California;

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Illustrations of financial statements were taken from comprehensive annual financial reports of the following school systems that earned ASBO's Certificate of Excellence in Financial Reporting by School Systems:

Annapolis, Maryland, Anne Arundel County, Annapolis, Maryland, Comprehensive Annual Financial Report of the Board of Education and the Public Schools of Anne Arundel County for the Fiscal Year Ended June 30, 1981;

Beaverton, Oregon, Washington County School District No. 48, Comprehensive Annual Financial Report for the Year Ended June 30, 1981;

Carrollton, Texas, Carrollton Farmers Branch Independent School District Comprehensive Annual Financial Report, Fiscal Year Ended August 31, 1981;

Charlotte, North Carolina, Comprehensive Annual Financial Report, Charlotte/Mecklenburg Board of Education for the Fiscal Year Ended June 30, 1981;

Columbia, Missouri, Comprehensive Annual Financial Report, Columbia Public School District, Columbia, Missouri, for Fiscal Year Ended June 30, 1981;

Conroe, Texas, Conroe Independent School District Comprehensive Annual Financial Report, Fiscal year Ended August 31, 1981;

Dallas, Texas, Dallas Independent School District Comprehensive Annual Financial Report, Fiscal Year Ended August 31, 1981;

Houston, Texas, Houston Independent School District Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 1981;

Houston, Texas, Annual Financial Report for the Fiscal Year Ending August

31, 1981, Spring Independent School District;

Marion, Iowa, Marion Independent School District, Marion, Iowa, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1981;

Richardson, Texas, Comprehensive Annual Financial Report for the Fiscal Year Ended August 31, 1981;

Romeoville and Bolingbrook, Illinois, Valley View Public Schools Community Unit District No. 365-U, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1980;

Salt Lake City, Utah, Salt Lake City School District Comprehensive Annual Financial Report for the Year Ending June 30, 1981; and

Spring, Texas, Klein Independent School District, Spring, Texas, Comprehensive Annual Financial Report for the Klein Independent School District for the Fiscal Year Ended August 31, 1981, Spring, Texas.

Finally, I express appreciation to my wife, Mary, for technical writing assistance and editing.

Houghton, Michigan
Sam B. Tidwell

ABOUT THE PUBLISHER

Formed in 1963 as a non-profit research arm of the Association of School Business Officials of the United States and Canada (ASBO), the Research Corporation of the Association of School Business Officials (RCASBO) engages in professional research activities designed to advance educational, scientific, and charitable endeavors within the profession of education. It conducts research programs at the elementary, secondary, junior or community college, college and university, and post-graduate levels, which stress the management of schools. It disseminates its findings widely among school leaders in an effort to improve business management of educational institutions and create better relationships between and among school business managers and the tax-paying public.

Section 1

BASIC PRINCIPLES OF ACCOUNTING FOR ELEMENTARY AND SECONDARY SCHOOLS

1

INTRODUCTION

Since publication of the second edition of this book in 1974, attention of additional major segments of the financial world has been focused on governmental accounting, auditing and financial reporting. As a result, many improvements have emerged which can be of significant assistance to school systems at the federal, state, provincial, and local levels. The need for effective and easily understood governmental financial statements and reports became more urgent when governmental units recently faced the inability to retire outstanding bonds when they matured and when operating deficits and fund deficits began to appear as a result of economic conditions and the lack of proper accounting and reporting. Therefore, it is the purpose of the third edition to bring these improvements in financial and managerial accounting and reporting to the attention of both producers and users of interim and annual financial statements of school systems.

ORGANIZATION OF THE BOOK

The book is written for people entering education administration because it uses the language of educators while it presents financial accounting and reporting principles and procedures. It illustrates how financial accounting and reporting principles are applied in analyzing and recording typical financial transactions of a school system. Emphasis is placed upon how meaningful interim financial statements can be produced by members of the staff of the school system's business office. Thus, management accounting is presented as the basis for effective and timely policy decisions of the board of education and management actions during the fiscal period. In addition, this edition illustrates application of financial accounting and reporting principles to the comprehensive annual financial reports of a school system, the basic objective of publications of organizations such as the American Institute of Certified Public Accountants and the National Council on Governmental Accounting.*

The book is divided into two sections. The first section goes directly to accounting problems of school systems rather than to accounting problems of profit-making business enterprises which operate as proprietorships, partnerships and/or corporations. To do this, financial accounting and reporting principles are presented by use of the fund and account group structure recommended for school systems by organizations such as the Association of School Business Officials of the U. S. and Canada. As a result it is a unique accounting textbook because it is designed to be the most efficient approach to studying and understanding accounting for people who are specifically interested in financial accounting and reporting for school systems. Financial transactions typical of a school system's general fund are used. Illustrations are presented to show how accounting principles are used to analyze and record each financial transaction of a school system. Illustrations are presented to show how financial information is summarized and presented in simple, yet complete, financial statements at the end of each month for effective and timely board of education policy decisions and for management actions.

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* *The National Council of Governmental Accounting (NCGA) is now defunct. Its activities are being carried on by the Governmental Accounting Standards Board (GASB). All NCGA pronouncements have been adopted by GASB. Former NCGA pronouncements will now be referred to as GASB.*

The first section expands the traditional accounting equation used in profit-making enterprises by including budgetary accounts, a basis for monitoring and management of revenue from each source that is available to the school system and a basis for control of expenditures. Attention is focused on the problems of cash flow, working capital, and what causes changes in financial position of the general fund between the beginning of the fiscal period and the date of the financial statements. Budgetary accounting controls and financial reporting principles developed in section one of the book provide the basis for consistent application of accounting principles which are equally as useful as managerial financial controls in special revenue funds, capital project funds and debt service funds that compose a part of section two of the book.

The second section of the book presents each fund and account group individually, illustrating how the complex financial structure of a school system can be divided into smaller segments that can be more easily understood and for which financial controls can be more effectively and efficiently established and maintained. Financial transactions typical of those used in each fund and account group of a school system are illustrated.

Section two includes the general fund, special revenue funds, capital project funds, and debt service funds. These funds are known as "governmental type funds" by the Governmental Accounting Standards Board but as "formal budgetary type funds" by ASBO. Interim and annual financial statements are presented for these formal budgetary type funds and include balance sheets and statements which compare estimated or budgeted revenue with revenue realized to date. They indicate to management and the board what revenue remains available to the school system at the date of the financial statement. Interim financial statements for these formal budgetary type funds compare expenditures or commitments with legal expenditure limits established by appropriation acts of the board of education. Interim financial statements also include statements that analyze and report what changes have taken place in the fund equity accounts. And interim financial statements also present statements that show what changes have taken place in the financial position of each of these funds. They are used to operate the school system.

A PLACE FOR ACCOUNTING IN SCHOOL SYSTEMS

A business enterprise as big as a local, intermediate, state, provincial or federal school system needs to be equipped with modern business practices, technical knowledge and skill in order that the business affairs of school systems can be conducted in an efficient and economical manner. Financial administration of school systems is big business.

Accounting is involved in each area of activity through which a local school system attains its educational goals and objectives. It is through accounting that financial standards are established and maintained. When employed properly, accounting is a valuable tool in the hands of the school administrator. Financial statements and reports prepared from accounting records provide a valuable guide for policy decisions on the part of governing boards of education. These financial reports and statements have to be complete and they have to be presented on a timely basis. The format of financial statements must be presented in a way that is generally recognized and meaningful. The breadth of educational opportunities is ever-increasing and record-keeping is an important function in the effective and efficient administration of each school system. Without adequate records which indicate what has happened, or what is happening, decisions about management or about governing policies would have to be based on guesswork, estimates, or memory.

With an adequate system of recording and reporting financial transactions necessary for a school system to operate and render the services demanded by constitution, statute, charter, ordinance, or ruling, wise informed administrative action can be taken. Therefore, the person who understands the financial structure of a school system and how it operates, and can record and summarize financial transactions of the unit in a meaningful and timely way can provide a basic and an indispensable service to our society.

It is the responsibility of the school board to make resources available from revenue provided by a supporting public in an amount sufficient to provide for adequate bookkeeping and accounting services in order to provide a systematic and accurate accounting of all money and property held in its trust. A knowledge of accounting and reporting principles and procedures as they relate to each fund and account group used in the management of a school system becomes a necessary tool for each member of the school system's administrative staff

PURPOSE OF SCHOOL FUND ACCOUNTING

Accounting has been defined as the art of classifying, recording, and summarizing—in a significant manner and in terms of money—transactions and events which are, in part at least, of a financial character, and interpreting the results thereof An accounting system includes not only ledger accounts, books of original entry, and underlying forms and papers, but also the routines and procedures by which all of the records of the school system are knit together into a meaningful and useful financial control device.

OBJECTIVES OF FINANCIAL ACCOUNTING FOR SCHOOL SYSTEMS

The objectives of financial accounting for school systems may be summarized as:

1. To provide a complete record of all financial transactions of the school system.
2. To summarize, with reasonable promptness, financial transactions of the school system in financial reports required for proper, effective and efficient administration.
3. To provide financial information which would be helpful for budget preparation, adoption, and execution.
4. To provide financial controls or safeguards for the school system's money and property.
5. To provide a basis whereby the governing board can place administrative responsibility and minimize the possibility of waste, carelessness, inefficiency, and possible fraud.
6. To provide clear and concise financial reports to the public as a basis for judging past, present, and future financial operation of the school system.
7. To provide a historical record which, over a period of years, can be studied and analyzed critically and constructively for the purpose of aiding citizens, the governing board, and the school system's administrative officers in keeping pace with changing concepts of education.

CHARACTERISTICS OF FINANCIAL ACCOUNTING FOR SCHOOL SYSTEMS

Accounting for school funds differs in many ways from accounting for industry. One difference results from the legal restrictions placed upon the school system's sources of revenue and upon the purposes for which those revenues may be expended. The school system, being a public enterprise, is financed through various forms of taxation. Legal restrictions place limitations upon expenditures.

Accounting principles and procedures commonly identified as "fund accounting" best serve local and state school systems because legal restrictions and limitations are more easily presented and transactions are more effectively analyzed, recorded, and reported through the use of fund accounting than through accounting principles which apply to commercial transactions. Fund accounting concepts also are used in private school systems which are operated as nonprofit organizations.

Usually, a school system operates through the use of more than one fund. In such a case, each fund has certain property or certain property rights legally set aside for its restricted and limited use. Fund accounting is nothing more than a separate, complete set of books for a school system. It analyzes and records the effect of each financial transaction on the property or property rights of each fund and account group.

Administration of a school system involves the use of those procedures which provide assurance that each financial transaction is in accordance with legal requirements. Experience of past years, when recorded in accounts of the school system, serve as a basis for estimating future financial requirements for the service demanded of the school system.

ORGANIZATION PATTERN OF A TYPICAL SCHOOL SYSTEM

An accounting system, to be effective, must be established with a "chart of accounts" consistent with the organizational structure of the school system. Frequently, a chart of accounts is designed on a departmental, functional, or program basis. When expenditures are recorded in terms consistent with the organizational structure of the school system, responsibility can be placed effectively for budget preparation, execution and accountability.

A school system serves the people who are living within a certain geographical area. It operates under the direction of a governing board created by authority of the constitution and laws of the state. Membership on the board is by election or appointment. Powers, rights, duties, and obligations of the board are prescribed by law and are sufficiently broad to include all areas of organization and operation of the school system. The responsibility for accounting for all funds may be that of the clerk, treasurer, controller, director of finance, school business official or assistant superintendent of finance.

Two organizational patterns, generally, are used by school systems; they are known as the "dual system" and the "unit system". Dual systems involve appointment of two officers of equal authority by the board. One officer may be designated as the superintendent of instruction and the other may be designated as the business manager, finance director, or by other appropriate title. Under the dual pattern, the board serves to coordinate the work of the educational or academic division and the work of the business division of the school system or school district.

The unit system of organization involves appointment of one chief executive, commonly known as the superintendent of schools. The unit pattern transfers responsibility of coordinating the work of the academic division and the business division from the board to the superintendent. Under the unit pattern, the superintendent may have two technically and professionally trained assistants, one being the superintendent of instruction and the other being the business manager, finance director, superintendent for business, or other synonymous title.

Accounting is probably one of the most technical phases of the work of school officials. As the accountant for the school system, one is charged with the responsibility for maintaining and operating correctly an adequate accounting system. The accounting system is composed of general ledgers, subsidiary ledgers, various books of original entry, financial statement preparation, and filing of basic business documents. The accounting system may be maintained by a manual or handwritten system, a mechanical system or an electronic data processing system. All of these accounting records must be kept in such a way that they can be made available for public inspection through periodic examination either by the state's appropriate audit division, by an appropriate federal audit agency, or by outside independent accountants or auditors. In some cases, funds of school systems are subject to examination by each type of audit agency.

ACCOUNTING, A BASIS FOR ADMINISTRATIVE DECISION AND ACTION

The curious citizen inquires about the purposes for which the school system's tax money is being spent and wants to know many other things about the school system. Among questions about the financial affairs may be: What were the sources of the school district's revenue and how much was last year's revenue from each source? How much was spent on capital improvements? How much does bond interest cost annually? These are only a few of the questions that may be asked. Regardless of the question, satisfactory answers have to be given and it is the job of accounting to provide meaningful information and answers.

Figures alone, arranged neatly in columns, added or subtracted, converted into percentages, and presented in various colors may mean nothing in themselves. Figures must be arranged in a systematic order, identified by what they represent, and presented in a useful and meaningful manner for those who are interested in the particular case. The figures must be arranged so that the reader can understand the message that goes along with them. Putting information together in a form that has become generally accepted in the area of financial activity is a big part of the job of the accountant. Reliable information, when put together in a simple and meaningful way, can be used as a sound basis for administrative decision and action.

STANDARDIZED ACCOUNTING

Frequently administrators express a desire that school fund accounting systems be "standardized". However, each school fund has its own individual resources and each has a limited purpose for which expenditures may be made. It would be a rare occasion that circumstances in different communities would prescribe identical resources to be used for identical purposes. The accounting structure for each individual fund must be designed specifically to meet the circumstances and needs of the individual fund. It would be an impractical, if not impossible, task to "standardize" school accounting. However, basic, generally accepted school fund accounting principles apply to each fund's financial transactions. These generally accepted school fund accounting principles have been a concern of the Association of School Business Officials for a number of years.

Accounting principles applicable to school fund and account groups are uniform. For example, each fund has certain assets, liabilities, revenues, and expenses or expenditures. These are the accounting elements of a fund. Methods of analyzing and recording each transaction and methods of presenting summarized results are a part of the study of school accounting principles and procedures.

An accounting system is justified only to the extent that it produces information that is useful to those who need it and to the extent that it safeguards the assets and financial resources of the school system. Accounting recognizes that certain basic principles are generally used, but it also recognizes that it would be unwise to codify these principles and procedures into a set of laws which, if blindly followed, would produce only the form and not the substance.

DANGERS OF INCOMPLETE RECORDS

A study of the accounting procedures and principles used in analyzing, recording, and reporting all business transactions of school systems will give an understanding of the reasons why each transaction is analyzed and recorded in a certain way. Unfortunately, many school systems continue to use a recording system concerned only with cash receipts and disbursements. Financial administration involves much more than cash alone. Where such "cash basis" recording systems are in use, the board finds that financial controls are lost and that the "cash basis" recording system is inherently incapable of recording completely and reporting fully the nature and the results of all business transactions.

FUNCTIONS OF AN ACCOUNTING SYSTEM

Each school system may have a number of funds. A fund was defined by the Governmental Accounting Standards Board (GASB) in its 1979 Statement 1, Governmental Accounting and Reporting Principles, as "a fiscal and accounting entity with a selfbalancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations." The Research Committee on Accounting and Finance of the Association of School Business Officials of the United States and Canada (ASBO), defined a fund as "an independent fiscal and accounting entity with a self-balancing set of accounts. These accounts record cash and other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations."

The accounting system used for any fund must be designed to meet the individual requirements of that fund. Transactions that affect a fund are analyzed and recorded, individually, in journal form, posted to general ledger accounts and, if necessary, they are posted to subsidiary ledger accounts, and they are summarized periodically in financial statements. Financial statements reflect the financial position of the fund at a specific time and the results of its operation for a specific period of time.

PROPER ACCOUNTING SAFEGUARDS PROPERTY AND RESOURCES

The accounting system for each fund must be designed to safeguard the financial resources, assets, or property of the fund. Safeguards are established by setting up a series of controls designed to prevent errors of omission or errors of commission by employees having financial responsibility. This phase of accounting is referred to as internal control and tends to minimize errors committed intentionally or unintentionally. No system of accounting serves to its greatest extent without an adequate, well organized and efficient system of internal control. Internal controls establish administrative procedures which are to be followed which require proper authorization by designated officials for all actions to be taken. Internal controls not only safeguard the school system's property but they also safeguard the financial integrity of all employees of the school system who have financial responsibility. Statements on Auditing Standards published by the American Institute of Certified Public Accountants define internal control as follows: "Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting data, promote operational efficiency and encourage adherence to prescribed managerial policies."

ACCOUNT CLASSIFICATIONS

The accounting system must provide an orderly method of recording each element of a financial transaction. Elements of a financial transaction vary in nature, but each transaction can be analyzed as it affects a fund's assets, liabilities, budgetary accounts, revenue, expenditures, and/or fund equity accounts. Under each of these broad account classifications, only those accounts that are necessary to be used are established. Referred to as a chart of accounts, it provides a predetermined group of accounts which permits an orderly accumulation of the masses of financial data created by the fund's transactions.

In Canada, the account classification for the local school system is recommended by the Ministry of Education of each Province. In the United States, the most recent account classification recommendations made for use by state and local school systems are contained in a 1980 publication entitled Financial Accounting for State and Local School Systems, published by the National Center for Education Statistics, U.S. Department of Education (NCES). NCES has a responsibility to provide and interpret comprehensive statistics about the condition of education in the United States. Each state publishes accounting manuals through Departments of Education, Departments of Audit, or other state designated department. State accounting manuals for school systems are designed to meet the individual circumstances and needs of the state.

Proper account classification requires that accounts be such that financial reports requested by various governmental or educational agencies can be prepared easily and economically. Sufficient details must be recorded in order to provide information requested by school administrators, governing boards, or other city, county, village, township, state, provincial, or federal agency concerned with financial affairs of the school system. Legal requirements imposed at the local, intermediate, state, province or federal level must be observed and reports requested by each agency can become by-products of the accounting system.

ACCOUNTING, A BASIS FOR PUBLIC INFORMATION AND ACTION

Financial statements reflecting the financial position, results of operation, changes in fund equities, and changes in financial position of each fund and account group used by the school system provide the overall financial picture of operation of the school system when financial statements of individual funds and account groups are combined.

In addition to providing various reports to governmental agencies, the board of education needs reliable financial data as a basis for its decisions and actions. Investors are interested in determining the financial condition of the school system, its methods of financial administration, and the results of its operation, as a basis for determining, for example, whether or not they should invest in bonds of the school system. Financial statements frequently are used as a basis for determining the interest rates to be paid in cases of bonded indebtedness. Students of public finance, political scientists, social scientists, and the citizens of the community are interested in the financial welfare of each fund and account group used in financial administration of the school system.

AUDITING, PUBLIC INSPECTION OF FINANCIAL ADMINISTRATION

An important function of accounting is that of auditing. There are many definitions for the word "audit." However, for purposes of school fund accounting, the word audit involves examination of the documents, records, reports, system of internal control, accounting procedures, and other evidence for the purpose of determining the propriety, legality, and propriety of proposed or consummated transactions, or for the purpose of ascertaining whether all transactions have been recorded and properly reported.

Three types of audits are in general use in cases involving school funds. The first type is the "internal audit," conducted by a technically trained employee or group of employees of the school system. The internal audit is an important part of an effective system of internal management and control. Its purpose is to detect and correct errors of omission and commission, whether intentional or unintentional, at the time the transaction occurs. The internal auditor is an employee of the school system and is subject to the wishes, desires, and demands of the administrative officers; therefore, the internal auditor and his staff generally are not independent to the extent required by the public. A greater responsibility exists in those cases where the internal auditor reports directly to the school board rather than through an executive officer.

The second type of audit is a "federal, provincial or state examination of the accounts" conducted by the federal government's, the province's, or the state's authorized audit agency. This type of audit serves a very definite purpose. The objective of an examination by the state, province or federal agency is to determine that legal provisions prescribed by the governmental agency are being followed by the school system. Many times school administrators insist that adherence to minimum reporting requirements of the state or province is sufficient for the local school system's accounting system. But examination by state, province, or federal agencies frequently are restricted because of a number of factors, especially limited appropriations by legislative bodies. Limited resources do not permit employment of an adequate number of technically qualified personnel to render timely management services to the local school system and, as a result, frequently the federal, province and state examinations are limited to such work as bank reconciliations, tracing recorded receipts to deposit tickets and examining supporting evidential matter underlying vouchers involving cash disbursements. State and federal examinations, generally, do not provide complete accounting and auditing services. Only infrequently would the service rendered by the federal or state agency be extended to include a service such as advising the board of education relative to the over-all financial structure of the school system. Another important reason for this type of audit is to confirm grant calculations when payments are made by the state or federal jurisdiction, especially where such grants are paid on a basis of enrollment or other basis.

The place for a third type of audit exists. In many cases, the board of education secures an outside, "independent audit." This type of audit is usually conducted on an annual basis and the scope of the examination can be extended to provide a complete accounting and auditing service for the school system. It includes a review of internal accounting control practices and procedures and could include recommendations for improving them. As a part of the audit engagement, auditors include a "management letter" which addresses ways to improve operations and solve problems in financial administration. Examinations of this type, for example, can encourage efficiency on the part of employees of the school system. Reliance is placed upon the report of examination in making decisions not only by lending institutions but also by state, provincial and federal jurisdictions which provide revenue to boards of education. An additional advantage of this type of audit is that it can be made while there is still time for appropriate administrative or legal action to be taken, if necessary, in order to safeguard assets and resources. In this way, the audit is a useful tool of local management.

Early in 1984, it is anticipated that the American Institute of Certified Public Accountants will issue a publication entitled *Industry Audit Guide, Audits of State and Local Governments and Indian Tribal Governments Conducted Under the Audit Requirements of OMB Circular A-102, Attachment P.*

Chapter 1
Introduction

QUESTIONS

1-1. What is the purpose of fund accounting for elementary and secondary school systems?

1-2. Define accounting.

1-3. What are the objectives of school fund accounting?

1-4. What characteristic makes accounting for school systems different from accounting for industry?

1-5. What two types of organizational patterns are widely used by school systems? Explain each type.

1-6. Why can't school fund accounting be standardized? Does "standardize" mean the same thing as "application of generally accepted accounting principles?

1-7. Why are cash basis recording systems unsatisfactory?

1-8. What is internal control?

1-9. Why is a good system of internal control necessary for a school system?

1-10. What does the term "audit" involve?

1-11. Describe briefly the three general types of audits associated with school systems.

2

SCHOOL FUNDS

Financial administration of a school system requires the use of a systematic process by which each transaction can be identified for administrative, accounting, and auditing purposes. Identification is possible through the use of the accounting entity known as a "fund." It is customary that more than one fund exists for each school system since each fund has certain property set aside for its restricted use. The size of the school system does not determine the number of funds to be used. Federal, state or provincial laws, rules, and regulations prescribe certain funds and others may be created by the governing board as necessary to provide sound financial administration.

KINDS OF FUNDS

In 1980, the Research Corporation of the Association of School Business Official's (RCASBO) publication, *Certificate of Excellence in Financial Reporting by School Systems*, recommended the use of the following fund types and account groups be used by school systems. They are:

Governmental Fund Types or Formal Budgetary Funds:
  General Fund,
  Special Revenue Funds,
  Debt Service Funds, and
  Capital Projects Funds.

Account Groups:
  General Fixed Assets Group of Accounts, and
  General Long-term Debt Group of Accounts.

Proprietary Type Funds:
  Enterprise Funds, and
  Internal Service Funds.

Fiduciary Funds:
Trust Funds, and
Agency Funds.

This book will present the theory of accounting, accounting principles, including budgetary accounting, recording and financial statement preparation procedures used by the general fund through chapter 9. Because each kind of fund and account group used by school systems makes it possible to sub-divide financial transactions and controls into smaller, more easily understood and more easily identifiable purposes and objectives, the remainder of the book will be devoted to each of the various funds and account groups by use of a separate chapter for each in Section II.

FUND DEFINED

At its 1977 Annual Meeting, ASBO adopted the following definition for a fund: "A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. These accounts record all assets and financial resources together with all related liabilities, encumbrances (or commitments), reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Every school system should establish and maintain those funds required by law and sound administration."

A fund is an independent accounting entity. For the general fund, a self-balancing group of accounts must be provided to show its assets and other resources, its liabilities and/or obligations, its fund equity, and its revenue and expenditures with related budgetary accounts. Similar accounts are used in each special revenue fund, each capital projects fund, and each debt service fund. The general fund, special revenue funds, capital projects funds, and debt service funds are referred to as "governmental funds" by the Governmental Accounting Standards Board but as "formal budgetary funds" by ASBO.

Enterprise funds and internal service funds are known as "proprietary type funds" by both GASB and ASBO. Because this type of fund is financed and operated in a manner similar to private businesses, the accounts required are different from those required in formal budgetary type funds or governmental type funds. In proprietary type fund, asset, liability, equity, revenue and expense are used.

Trust funds and agency funds are known as fiduciary funds. However, they are quite different in nature and purpose. Trust funds have asset, liability, equity accounts known as principal, income and expense accounts. Agency funds usually have only asset and liability accounts.

The general fixed assets account group and general long-term debt account group are referred to as "account groups" instead of as funds. They do not use the same kind of accounts as are used in funds. The general fixed assets account group has asset accounts for fixed assets or assets having a period of usefulness longer than one year along with related accounts which identify the source of all of them. In addition to a balance sheet or a statement of general fixed assets, financial statements for this account group should include a statement of changes in general fixed assets to reconcile beginning and ending balances of the general fixed asset accounts by showing additions and deletions during the year. Some accountants prefer that changes in general fixed assets be shown in footnotes.

The general long-term debt account group has accounts which reflect what resources must be provided in the future and what resources have been provided to date along with accounts that identify the long-term liabilities that are outstanding. In addition to a balance sheet or a statement of general long-term debt, financial statements for this account group should include a statement of changes in general long-term debt to reconcile beginning and ending balances to show what has happened during the year. Again, some accountants prefer that changes in general long-term debt be shown in footnotes while others prefer the financial statement disclosure method to avoid the possibility of being omitted in future years. Readers of financial statements find that footnotes can become extremely long and difficult to understand.

NATURE OF FUNDS. The nature of school funds may be analyzed in the following manner:

1. A school system operates with a number of different funds and account groups.
2. Each fund has an identifiable sum of money or other property or resources to which it has claim or ownership.
3. Resources of a fund may be actual assets presently or potentially available to the fund such as estimated revenue.
4. The assets of a fund may be used for carrying on a specific activity or for attaining certain objectives.
5. The activity or objective for which a fund's assets may be used is regulated through proper legal or administrative procedures.
6. A fund is an independent fiscal and accounting entity and may be viewed, in a sense, as an independent operation. To account for its assets, the fund requires a set of accounts which will reflect realization and application of the fund's resources.
7. To account properly for realization and application of a school system's financial resources, traditional accounts are used which record assets, liabilities, fund equity, reservations of fund equity, revenues, expense and/or expenditures, and budgetary accounts.
8. A fund's revenues must be identified and classified by source and amount.
9. A fund's expenditures require identification by amount and classification. Classification, at a minimum, is by object, and organizational unit or function to place financial responsibility. Additional classifications can include program, location, academic grade level and many others.
10. A fund's cash receipts must be recorded, controlled and traceable to the source of the cash and to the depository.

11. A fund's disbursements must be made in accordance with restrictions placed on the fund's use.
12. Each fund, having its own independent accounting system, should periodically present a balance sheet, a statement of the fund's operation, a statement of changes in fund equity, and a statement of changes in financial position which is coming to be recognized as a most meaningful financial statement.

Fund accounting procedures involve each of these. Through them, it is possible to comply with legal and administrative restrictions placed upon the school system's revenues. Fund accounting principles make identification and classification of revenues and expenditures meaningful.

FUND RESOURCES DEFINED

The word "resources" is included as a part of the definition of a fund. The Governmental Accounting Standards Board defined resources as "the actual assets of a governmental unit such as cash, taxes receivable, land buildings, etc., plus contingent assets such as estimated revenues applying to the current fiscal period not accrued or collected and bonds authorized but unissued." The inclusion of contingent assets distinguishes the word "resources" from the word "assets."

Assets and financial resources come to the school system's board of education from its taxing power or by assignment from the governmental unit or units under which the board operates. In either case, resources through which assets originate are limited and it is important to the school system that formal records be made of these resources; otherwise financial controls are lost. The problem of providing adequate resources for the operation of a fund centers around various forms of taxation. Sufficient assets must be provided if desirable educational goals and objectives are to be achieved.

FISCAL CONTROLS

A school fund operates under a set of financial controls established by federal, province, state or local law, rule, or regulation which make the fund either fiscally dependent or independent. If the governing board has the right to levy taxes and to spend income therefrom without submitting its budget to any other governmental agency for approval, the fund is said to be fiscally independent. If the board is required to secure approval prior to levy of the tax or if the levy is made by another governmental agency, the district is said to be fiscally dependent. Accounting principles are not affected by this concept of fiscal controls and will operate effectively under either procedure required.

FUND OBJECTIVES

In addition to showing the various sources of revenue and the purposes for which expenditures are made, fund accounting provides effective budgetary controls, a feature essential to efficient financial administration. Budgetary accounts are included as a part of the general ledger and subsidiary ledgers for each fund in which money is subject to restricted use. Budgetary accounts are the appropriation accounts, estimated revenue accounts, encumbrances accounts, and budgeted fund balance account, a group of accounts not customarily used in accounting for commercial firms which operate for profit.

Budgetary accounts serve three purposes. First, they record the fund's estimated revenues by source and amount. When actual revenues are realized as the result of a financial transaction, it is possible to compare actual realized revenue to date with estimated revenues. Such a comparison permits administrative officers to analyze differences, to take appropriate action during the fiscal period to avoid an operating deficit and/or to realize maximum revenue available to it from each source.

Second, budgetary accounts record the limitations that the appropriation ordinance or resolution places on the purposes and amounts that may be expended. When expenditures or commitments are made and recorded, the accounts reflect the effect of the expenditure and commitments on the appropriation. As a result, administrative officers can be informed during the fiscal period about the amounts which are free from obligation and which may be committed and expended within the limitations placed by law. These budgetary accounts, when used properly, tend to prevent expenditures and encumbrances or commitments to be made in excess of appropriations or legal limits. In this way they tend to minimize the possibility of creating an operating deficit in a fund.

Third, the budgeted fund balance account, when used, reflects the excess of estimated revenue (budgeted revenue) over appropriations in the fund during the fiscal period. The moment that budgetary actions are taken by the board of education which make the current year's appropriations exceed the current year's estimated revenue, an operating deficit would become apparent. An operating deficit can be absorbed only to the extent of the remaining unappropriated fund equity. Therefore, this budgetary account tends to minimize the possibility of creating a fund deficit without knowledge of administrative officers or the board.

INDEPENDENT ACCOUNTING ENTITY

To provide full information about the sources and amounts of revenue which are used for meeting the objectives of a fund, a separate group of self-balancing accounts best serve school systems. This group of accounts, known as an independent accounting entity, is referred to as a fund.

Accounts which record financial transactions of a school system's general fund may be classified as:

1. Asset accounts
2. Liability accounts
3. Fund equity accounts
4. Estimated revenue accounts
5. Revenue accounts

6. Appropriation accounts
7. Expenditure (or appropriation expenditure) accounts
8. Encumbrance accounts
9. Summarizing and closing accounts

Accounting principles used in recording transactions in accounts under each of these account classifications are consistent with the accounting principles applicable in all other areas of governmental accounting where public funds are involved. Account titles vary, but a difference in account title does not alter basic accounting principles applicable to accounts falling within one of these classifications.

CREATION OF A FUND

A specific fund may be created in a number of ways. It may be required by constitution, statute, ordinance, resolution, or administrative order. In any case, a legal or legislative body authorizes certain financial resources to be assigned to the fund to be used for specific purposes. The body having power to create a fund may be at the federal, state, provincial, county, city, township, or village level of government. Once authority to create a fund has been granted, its purposes, financial resources, and objectives cannot be altered without authority from the body having created the fund. The way in which a fund is created has a definite effect upon the degree of policy freedom that is available to the board of education and upon the administrative freedom that is available to the superintendent and the business manager. For example, if a certain fund is required by statute of the state, a change in statue is required before a change in resources or purposes of expenditures can be made. If a fund is created by the governing board, only action by the board can change the resources and objectives of the fund.

The act creating a specific fund must include a provision for necessary resources to finance the fund's activities and it must include a statement of the nature of the expenditures authorized. Fund resources may arise from the power to tax, from the power to levy a special fee or assessment, from income earned, or from a specific grant. In the event no source of money is specified, the general fund is used at the direction of the board.

CONVERSION OF RESOURCES INTO CASH

There are many steps and, possibly, a long period of time may be required in the process of converting a fund's resources into available cash. Proper accounting procedures must show financial position at each stage of the conversion process. The power to tax is a fund resource; this resource is converted into an asset in the form of taxes receivable when the tax is levied. Taxes receivable are then converted into cash which is used for the purposes specified. It is important that each fund be in a position to determine for itself that taxes authorized to be levied are levied and that cash collected is actually made available to the fund. For this reason, it is desirable that financial transactions which involve the tax levy and collections therefrom be made a part of the formal accounting records of the fund. Otherwise, money collected may be diverted and never made available to the fund.

A system of accounting which concerns itself only with cash receipts and disbursements, commonly referred to as "cash-basis accounting," does not have an organized, methodical, and formal way by which taxes receivable are recorded in a fund or controlled until they are either collected or are authorized to be written off by the board of education. Failure to formally account for taxes receivable in a fund subjects the school system to the possibility of serious losses without the knowledge of the governing board. ASBO included the following as a part of "Financial Accounting Standards and Procedures for School Systems" which was adopted at its 1977 annual meeting: "...The cash basis of accounting is not permissible because it does not accurately present the financial position of the school system."

In addition to taxes receivable, cash comes from claims against federal, state, province, or local units of government; from conversion of other assets; from creation of liabilities; from various sources of revenue; from expenditure reimbursements; and from other sources. An adequate system of accounting will analyze and record completely transactions which involve present or potential cash resources.

Sound business practices must be followed in converting the fund's resources into cash. This includes keeping a permanent account of all assets until properly disposed of either through cash collection or until disposition is authorized by the governing board. Failure to report these assets gives incomplete information, precludes sound management decisions on the part of the governing board, and creates the possible loss of control of the assets by administrative officers.

AUTHORIZATION FOR EXPENDITURES

School systems operate through the use of budgets. The budget, prepared by administrative officers, shows how much is estimated to be spent by the school system to carry out its goals and objectives during a certain period of time. If approved by the board and other required agencies, resources will be provided sufficient to finance the school system. The budget also shows how much money is estimated to be received from each source of revenue. When a budget's estimated revenues equal estimated expenditures, the budget is said to be in balance.

In the event the board, or other governmental agency having authority, rejects the budget, it is modified either by the board or other governmental agency or it can be returned for modification to administrative officers of the school system. When modified according to instructions, the budget again is placed in the process leading to ultimate approval. Formal approval of the budget frequently is referred to as the budget resolution or the appropriation resolution.

EXPENDITURES FROM FUNDS

In many cases the law is specific in providing certain sources of revenue for a school system. It is also specific in restricting the purpose for which cash collected from these various sources of revenue may be used. The accounting principles which reflect these legal provisions and restrictions are budgetary accounts. Therefore, for those funds which are restricted as to source of revenue and as to the purpose for which expenditures may be made, budgetary accounts provide a most useful tool of financial administration.

Prior to expenditure of cash from funds subject to budgetary control, the accounts should be reviewed to determine that the appropriation is unobligated in an amount sufficient to provide for the proposed expenditure. This procedure will avoid the possibility of over-expending an appropriation. The purpose of each expenditure should be examined to determine that such an expenditure is a proper expenditure of the school system and of a specific fund. Sufficient business papers or supporting documentation should be obtained to substantiate the transaction and to provide adequate control of all of the financial resources of the fund.

Some school funds do not receive their revenue directly from taxation or other similar public sources, and the purpose for which the expenditures may be made may not be restricted through budgetary action. In such a case, a public fund may not use budgetary accounts. Examples of funds of this nature are trust funds, agency funds, enterprise funds, and internal service funds.

In either case, however, the board of education is charged with the responsibility of accounting for all financial transactions of the school system. Each fund, whether or not it is subject to a budget, has specific purposes for its existence and in order to provide complete information, financial statements must be prepared. When financial statements for each fund and account group are combined and/or consolidated, the board, administrative officers, and others interested in the financial condition of the school system have a complete picture of the financial position and results of operation of the school system. Financial statements which fall short of full disclosure tend to destroy the possibility of making wise decisions on the part of administrative officers, the board of education and the public.

CONSISTENT FUND TERMINOLOGY

The Governmental Accounting Standards Board, the Association of School Business Officials, the National Center for Education Statistics, and many other leaders in the field of fund accounting recommended the use of fund terminology which is consistent in all areas of public service. Consistent terminology can be applied to the funds recommended by ASBO, by Departments of Education of each of Canada's provinces, by Departments of Education in each state in the U. S. and to other kinds of governmental units. Therefore terminology identifying various kinds of funds throughout the remainder of this book will be: general fund, special revenue funds, capital projects funds, debt service funds, general fixed assets account group, general longterm debt account group, enterprise funds, internal service funds, trust funds and agency funds. By the use of these titles for funds and account groups, and the accounting principles and procedures applicable to each, full disclosure of financial information is possible for each school system.

CLASSIFICATION OF FUNDS

Financial transactions of a school system involve one or more funds and/or account groups. The nature of a fund or account group determines the kind of transaction and the accounting principles and procedures to be used to analyze and record each transaction. Funds commonly are classified as to ownership, expendability or purpose.

CLASSIFICATION BY OWNERSHIP. School funds are either public funds or trust funds. Public funds are those the resources of which are available for expenditure for public purpose. Trust funds are those which are to be used for specific individuals or groups, or those held subject to special restrictions. Revenues of trust funds may come from either public or private sources. Pension or retirement funds, employees vacation pay funds, scholarship funds, and endowment funds are examples of trust funds.

CLASSIFICATION BY EXPENDABILITY. Resources of school funds are either expendable or non-expendable. Expendability refers to the right of the board of education to expend all financial resources within a specific fund. Funds that are expendable are: the general fund, special revenue funds, capital project funds, debt service funds, agency funds, and expendable trust funds arising from gifts, grants, or bequests where the trust agreement specifies that the assets received may be totally depleted by operation of the fund.

If however, resources originally transferred to a fund are represented by a fund equity account which is intended to be maintained intact, such a fund is said to be non-expendable. To be non-expendable, a fund created to render a service must charge for the services it renders in order to provide for a return of capital and to avoid the possibility of depleting the fund equity account. Examples of non-expendable funds are enterprise funds, internal service funds, and non-expendable trust funds. A central stores fund, a central maintenance, and a central garage fund are examples of internal service funds. A food service fund and a school bookstore fund are examples of enterprise funds. A scholarship fund is an example of a non-expendable trust fund.

CLASSIFICATION BY PURPOSE. Funds of a school system are classified according to the purpose for which they are created. The general purpose of each of the funds is indicated as follows.

1. General Fund. The General Fund exists in every school system. All revenue and other assets not required by law or contractual agreement to

be placed in another fund go into the general fund. The purpose of the general fund is to carry on the current general operations of the school system.

2. Special Revenue Funds. There may be more than one special revenue fund in operation by a school system. These funds include all of those which are created to be used for designated educational purposes from special sources of revenue. Each of these funds may receive revenue from either public or private sources but expenditures are restricted to specific educational purposes which are not currently a part of the school system's foundation program in education.
3. Capital Projects Funds. Capital projects funds are created to acquire general fixed assets such as buildings, equipment, machinery, and land. Revenue may be realized from either public or private sources as well as from proceeds of bond issues. These funds serve to account for capital projects from the date bonds are authorized to be issued to the date proceeds are expended for the purpose for which they were issued. Revenue may come from other local, state, province, or federal sources which is designated for the capital project. Instances have been known to occur when proceeds from a capital project bond issue have been deposited in school funds other than a capital projects fund, resulting in commingling cash from a bond issue with cash of another fund. As a result the bond proceeds were used for a purpose other than for what they were intended. Accounting for proceeds from a bond issue through separate capital projects funds can avoid the occurrence of similar unfortunate events. A capital projects fund also may have special taxes assessed for a capital project or money may be allocated to it from other funds.
4. Debt Service Funds. Debt service funds are created for the purpose of accumulating large amounts of money or other resources which are to be used to retire outstanding debt, usually in the form of bonds. A debt service fund can be created not only to retire principal of debt, but it can also be created to receive sufficient revenue to permit periodic payment of interest on long-term indebtedness. Systematic accumulation of cash or other resources over a long period of time is best accomplished through use of a fund separate from the general fund. To provide effective control, a separate debt service fund should be created for each bond issue.
5. Enterprise Funds. Common among enterprise funds are: school food service funds, cafeteria funds, milk program funds, bookstore funds, newspaper funds, school annuals fund, physical education, athletic and recreational funds, and transportation funds. Enterprise funds are distinguished from other types of school system funds because they, generally, offer a service which is principally, if not entirely, self-supporting. As a result, they charge for services rendered. They use their income to carry out the objectives or functions for which they were created. Enterprise funds are different from internal service funds, but there are similar characteristics. Although both account for those fixed assets designated

for the use of the enterprise or internal service fund, the internal service fund renders a service to other organizational units within the jurisdiction of the school system. Enterprise funds generally render services directly to the customer who may be either outside or inside the organizational structure of the school system. Both record depreciation expense on fixed assets used in the funds.

6. Internal Services Funds. The following kinds of business activity have transactions which may be most effectively accounted for through the use of internal service funds: central stores fund, central maintenance fund, central garage fund, central printing fund, and central computer services fund. These funds are created, principally, to render services on a cost reimbursement basis to other organizational units that come within the jurisdiction of the school system. They are generally intended to be self-supporting.
7. Trust Funds. Trust funds are created when the board of education accepts the responsibility to serve as trustee for property which may come to it by gift. The board exercises authority for administration of the property under the terms of a trust agreement. Trust funds can be either expendable trust funds or nonexpendable trust funds. To be nonexpendable, the principal amount of the trust is to be maintained intact. Income from a nonexpendable trust fund may be transferred to an expendable trust fund where it may then be used for the purposes for which the trust funds were created.
8. Agency Funds. A school system often finds itself in a position where it has to serve as an agent for other governmental units, employees, students, or others either by law or contract. As an agent, an agency fund holds property for others and performs duties as directed. An agency fund, therefore, usually has only asset and liability accounts. Among useful agency funds are a central payroll agency fund or imprest payroll agency fund, and a central treasury fund. This type of fund is created to account for cash or other resources held by the school system as an agent. Agency funds are expendable while trust funds may be expendable or nonexpendable.

The following two are better described as "account groups" rather than as funds:

9. General Fixed Assets Account. This group of accounts records all general fixed assets of the school system. Included are accounts which record all land, buildings, machinery, equipment, furniture, and fixtures that are not properly included as a part of another fund such as an enterprise fund or an internal services fund. Accounts are maintained in this group to indicate the sources from which the general fixed assets were acquired and the amount from each source.
10. General Long-Term Debt Account Group. This group is used to record all outstanding general obligation bonds and other long-term debts of the school system, except for long-term debt of proprietary funds, retirement of which must be made by revenue designated for that purpose. Today

Today this group of accounts is used to record lease obligations, deferred compensation liabilities, and pension obligations. The general long-term debt group of accounts is useful particularly in view of limitations placed upon school systems in the amount of bonds that are authorized to be issued and out standing. Included in this group of accounts are accounts which reflect the amount that must be raised in the future to retire the bonds, accounts that show how much must be raised for payment of interest in future years as well as accounts that show how much has been provided for these purposes to date for retirement of the bonds.

Chapter 2
School Funds

QUESTIONS

2-1. Define the term "fund" as used in financial accounting for school systems.

2-2. What determines the number of funds to be used in a particular school system?

2-3. Distinguish between "resources" and "assets."

2-4. What are the budgetary accounts and what purpose do they serve?

2-5. What is an independent accounting entity?.

2-6. Classify the accounts which record financial transactions of a school system.

2-7. Does the use of a different title for accounts falling within one of the classifications in questions 2-6 change accounting principles applicable to accounts within that classification?

2-8. The power to create a fund in the school system is vested at what level?

2-9. Why should a school system's accounting records include accounts which record financial transactions involving the entire tax levy and collections of such taxes?

2-10. How may a specific fund be created?

2-11. What is "cash basis" accounting?

2-12. Distinguish between "trust funds" and "public funds" when classified according to ownership.

2-13. What are characteristics of a special revenue fund?

2-14. What are characteristics of a general fund?

2-15. What are characteristics of a debt service fund?

2-16. What are characteristics of a capital projects fund?

2-17. What are characteristics of an enterprise fund?

2-18. What are characteristics of an internal services fund?

2-19. What are differences between an enterprise fund and an internal services fund?

2-20. What is the nature of an agency fund?

2-21. What is the nature of a trust fund?

2-22. Are all fixed assets carried in the general fixed assets account group? Explain.

2-23. What is the purpose of the general long-term debt account group?

3

GENERAL PRINCIPLES OF SCHOOL FUND ACCOUNTING

A major function of accounting is the periodic preparation of financial statements for each fund and account group. This is possible when each transaction is analyzed according to well established accounting procedures. Steps used in analyzing and recording transactions are as follows:

1. Each financial transaction is analyzed to determine the specific fund or account group to which it relates.
2. Each transaction is then analyzed to determine which accounts within the fund are affected. The transaction will result in an increase or a decrease in the balance of each account involved in the transaction.
3. Each transaction is recorded completely in the fund's books of original entry.
4. From these books, each component part of the transaction is posted to the specific account affected.
5. From the accounts, financial statements are prepared.

THE ACCOUNTING EQUATION

All assets or resources of a fund must be owned either by the school system itself or by its creditors. Therefore, the accounting equation for a fund is expressed as:

Assets = Liabilities + Fund Equity

Financial accounting analyzes the effect of each transaction upon a fund's assets, liabilities, and/or fund equity. Changes in any part of the equation are recorded by use of the theory of debits and credits.

Each fund of a school system has a separate self-balancing group of accounts. The accounts within each fund may be classified under one of the following: assets, liabilities, fund equity, estimated revenues, revenue, appropriations, encumbrances, expenditures, and summarizing or closing accounts. To be self-balancing, the total of the accounts having debit balances must equal the total of the accounts having credit balances. The procedure by which total debits and total credits of all accounts within a fund are maintained in balance is accomplished by use of the accounting equation and the theory of debits and credits.

BALANCE SHEET ACCOUNTS

Illustrations of the use of the accounting equation are shown by use of balance sheet accounts. The nature of balance sheet accounts is presented as follows:

ASSETS. Assets may be defined as all of the property of a school system, including property rights. Assets, even though stated at values which may or may not be realized, include all property of a fund. An asset may be a legal claim. It may be tangible or intangible. Uniform rules of accounting apply to asset accounts, regardless of the particular kind of asset involved in the transaction. Below is a list of assets commonly used in school funds with a brief description of each. Although the list is not complete, it does indicate the nature of assets.

1. Taxes receivable. This represents property taxes that have been assessed and levied but not collected. Taxes receivable may arise from a number of sources such as taxes on real and/or personal property. An account is used to record the estimated amount of uncollectable taxes receivable.
2. Taxes receivable, delinquent. This represents taxes that have been assessed, levied, are past due and remain uncollected. Accounts which reflect delinquent taxes receivable should remain on the books until collected or until approval is granted by the board of education to write them off. Otherwise, the school system can lose tax money without the board or its administrative officers knowing about it. The account that records the estimated amount of uncollectable delinquent taxes receivable is used. Taxes receivable, delinquent, generally are not written off but become leins attached to the property.
3. Due from *(specify)* fund. Upon recommendation of the superintendent, the board may authorized loans from one fund to another within the school district. This account records claims against other funds within the school district to which temporary loans have been made. The balance of this fund's asset account should equal the balance of the borrowing fund's liability account "Due to *(specify)* fund".
4. Due from local governmental units. This represents claims in amounts which remain uncollected from a governmental unit at the local level such as a city, town, township, or other local unit of government.
5. Due from the county government. This represents claims in amounts which remain uncollected from the county, or county treasurer.
6. Due from the state government. This represents claims in amounts which remain uncollected from the state as a result of the state's collecting money as an agent for the school system or it may represent the amount of state aid authorized by legislative acts which remain uncollected from the state.

7. Due from the federal government. This represents any uncollected amount from federal sources for which the school system has a claim.
8. Investments. When a fund has a cash balance larger than the amount to be used within a short period of time, it may be invested in certificates of deposit or other kinds of temporary investment authorized by the board of education, law permitting. Instead of lying idle, cash balances should be earning interest for the school district. Cash received from gifts and bequests for use as a trust or endowment may be invested in temporary or long-term securities. Interest from such investments may be expendable. Although not in the form of cash, this is an asset equally as important as cash and adequate accounting requires inclusion of such assets in financial reports of the school system.
9. General fixed assets. General fixed assets of a school system include land, buildings, furniture, fixtures, and equipment which are not assigned specifically to an enterprise fund or to an internal services fund.

Assets are recorded in terms of money in the accounts of the individual fund or account group to which they belong. It is important that all assets of the school system be recorded in order that the property be properly safeguarded by being placed under proper administrative control and supervision.

Asset account titles with account numbers suggested in 1980 by the National Center for Education Statistics in its publication entitled *Financial Accounting for Local and State School Systems* are as follows:

CURRENT ASSETS

101	Cash in bank
102	Cash on hand
103	Petty Cash
104	Change cash
105	Cash with fiscal agents
111	Investments
112	Unamortized premiums on investments
113	Unamortized discounts on investments
114	Interest receivable on investments
115	Accrued interest on investments purchased
121	Taxes receivable
122	Estimated uncollectible taxes
131	Interfund loans receivable
132	Interfund accounts receivable
141	Intergovernmental accounts receivable
151	Loans receivable
152	Estimated uncollectible loans
153	Other accounts receivable
154	Estimated uncollectible accounts receivable
161	Bond proceeds receivable
171	Inventories for consumption

172 Inventories for resale
181 Prepaid expenses
191 Deposits
199 Other current assets

FIXED ASSETS

211 Sites
221 Site improvements
222 Accumulated depreciation on site improvements
231 Buildings and building improvements
232 Accumulated depreciation buildings and building improvement
241 Machinery and equipment
242 Accumulated depreciation on machinery and equipment
251 Construction in progress

LIABILITIES. Liabilities are debts or other legal obligations arising out of transactions in the past which must be liquidated, renewed, or refunded at some future date. The term should be confined to items payable but not necessarily due. Below is a list of liabilities common to the operation of a school system. The list is not complete but indicates the nature of liabilities. When the board of education authorizes transactions, it is implied that the action is taken with legal counsel and that the law permits.

1. Accounts payable. This includes amounts owed to trade creditors on open account to individuals, firms, or corporations. It should not include amounts due to other funds within the school system, usually a part of a subsidiary accounts payable ledger when a voucher system is not used.
2. Vouchers payable. A voucher is a document prepared within the school system showing that a debt has been incurred. It shows the amount of the debt, to whom it is payable, and is supported by business papers which give evidence that the debt exists. Used in a voucher payable system where individual accounts are not obtained in a subsidiary accounts payable ledger. Either the accounts payable account or the vouchers payable may be used.
3. Tax anticipation notes payable. Frequently, a fund may find itself short of cash to pay currently maturing obligations. The board may authorize creation of a debt with an outside business organization, usually a bank, by issuing a short-term note payable. If money is borrowed from an outsider, it is important that the debt of the fund be recorded and reported.
4. Bonds payable. A bond is a written promise to pay a certain sum in money at a fixed time in the future. It may be distinguished from a promissory note because a bond usually is under seal, requires greater legal formality, voter approval usually, and runs for a period longer than the usual promissory note. The school system can raise large sums of money by issuing bonds. Proceeds from the sale of bonds are used for constructing, equipping, and maintaining school buildings and other related facilities.

5. Due to *(specify)* fund. Within a school system one fund may have cash on hand in an amount in excess of its immediate need for paying its current obligations while another fund may find that it needs more cash than is immediately available through normal operation of the fund. Under these circumstances, the board may authorize one fund to borrow money from another fund. As a loan from another fund does not represent a transaction with an outsider, but is rather an internal transaction within the school system, the nature of the debt is best presented by an account title such as "due to *(specify)* fund." The balance of this borrowing fund's liability account should equal the balance of the lending fund's asset account "due from *(specify)* fund."
6. Withholding taxes payable. For federal income tax and social security tax purposes, the school system is required to withhold certain amounts from its employee's salaries. Until the amount withheld is paid to the Internal Revenue Service, it is an obligation of the school system and should be shown in the accounts and on the financial statements as such.

It is important that liabilities outstanding against the school system be recorded. The liability should be identified by an account title which describes the nature of the debt, to whom it is owed, when it matures, and the rate of interest if applicable. In addition to recording obligations which are due and payable in full at the date of a balance sheet, liability accounts are used to record accrued obligations incurred but not paid at the end of the accounting period.

In the operation of a school system, it is important that cash be on hand to pay the debt when due, and for this reason, it is desirable to show all liabilities at the time financial statements are prepared. Otherwise, appropriations may not be made by the legislative body in an amount sufficient to cover all disbursements required during a budget period.

Liability account titles with account numbers suggested in the 1980 publication of the National Center for Education Statistics are as follows:

CURRENT LIABILITIES

401	Interfund loans payable
402	Interfund accounts payable
411	Intergovernmental accounts payable
421	Accounts payable
422	Judgments payable
423	Warrants payable
431	Contracts payable
432	Construction contracts payable--retained percentage
433	Construction contracts payable
441	Matured bonds payable
451	Loans payable
455	Interest payable
481	Deferred revenues
491	Deposits payable

492 Due to fiscal agent
499 Other current liabilities

LONG-TERM LIABILITIES

511 Bonds payable
521 Loans payable
531 Lease obligations
541 Unfunded pension liabilities
551 Accumulated compensated absences payable
590 Other long-term liabilities

FUND BALANCE. The fund balance accounts may be referred to by many different names, such as retained earnings, principal, contributed capital, and fund equity. Fund equity in enterprise funds and internal services funds is referred to as capital. Fund equity in nonexpendable trust funds is referred to as principal. In the case of each fund, however, the fund balance represents the difference between the fund's total assets and total liabilities. Since October 1949, the American Institute of Certified Public Accountants has recommended discontinuance of the term "surplus"; however, its use has not been entirely eliminated in practice. Theoretically, revenues of a school system should be sufficient to meet required expenditures for a fiscal period only; however, accurate predictions of revenues and expenditures cannot always be made in advance. If revenues exceed expenses, the fund equity will increase but if expenditures or expenses exceed revenues, an operating deficit will occur for the period and will reduce the fund equity or create a fund deficit.

In the management of a school system, commitments are made which require setting aside designated amounts of a fund's equity for specified purposes. When this occurs, the action is referred to as an "appropriation of fund balance" which is frequently identified by the title "reserve". Suggested titles for fund equity accounts and for appropriated fund balance accounts are listed in the 1980 publication of the National Center for Education Statistics as follow:

FUND EQUITY

711 Investment in general fixed assets
721 Contributed capital
730 Reserved-retained earnings
740 Unreserved-retained earnings
751 Reserve for inventories
752 Reserve for prepaid expenses
753 Reserve for encumbrances
760 Reserved-fund balance
770 Unreserved-fund balance

The excess of a fund's assets over its liabilities results in an amount referred to as the fund balance or fund equity. The computation may be reduced to a mathematical formula expressed as: assets − liabilities = fund equity. The balance sheet is presented in the form that shows: assets = liabilities + fund equity. All transactions that occur within a fund ultimately affect the fund's basic accounting equation.

ILLUSTRATION. Assume that on January 1, 19--, the board establishes a general fund for a new school system. The purpose of the general fund is to provide the basic educational program for the school district by paying the administrative and operating expenses of the new school system. Assume that the board assigns, in addition to a limited power to tax, certain other financial resources to the general fund. These resources, when converted into cash, are to be used to pay costs incurred in carrying on the purposes for which the general fund was created. The resources or assets assigned are: cash in bank, $1,000; taxes receivable $6,000; and temporary investments, $3,000. The balance sheet for the new school district appears as follows:

NEW HOPE SCHOOL SYSTEM
General Fund
Balance Sheet
January 1, 19--

Assets		*Fund Equity*	
Cash in bank	$ 1,000	Fund equity	$10,000
Taxes receivable	6,000		
Temporary investments	3,000		
Total assets	$10,000	Total fund equity	$10,000

This form of the balance sheet is referred to as the account form. It gets its name because assets are listed on one side and liabilities and fund equity items are listed on the other side, thereby giving it an appearance of an account.

ILLUSTRATION. As of January 2, 19--, assume that the board authorizes the school system to borrow $5,000 from another fund. Immediately upon completion of this transaction, the balance sheet appears as follows:

NEW HOPE SCHOOL SYSTEM
General Fund
Balance Sheet
January 2, 19--

Assets	
Cash in bank	$ 6,000
Taxes receivable	6,000
Temporary investments	3,000
Total assets	$15,000
Liabilities and Fund Equity	
Liabilities:	
Due to other funds	$ 5,000
Fund equity:	
Fund equity	10,000
Total liabilities and fund equity	$15,000

This balance sheet form is referred to as the report form. Either the account form or the report form is satisfactory, and the decision as to which to use is a decision of the board or the choice of financial administrators.

Reports submitted to other governmental units generally are prepared on the form furnished by or prescribed by each governmental unit. The forms frequently have purposes other than providing full disclosure of the financial position of the school system. The balance sheet which reports fully the financial position of the school system is designed to provide up-to-date information about the financial position of the fund for the board of education and management at any time during the fiscal period. The balance sheet for each fund is an integral part of the comprehensive annual financial report, too.

A MAJOR CHANGE IN GOVERNMENTAL ACCOUNTING

A major change occurred in governmental accounting in 1974 when the American Institute of Certified Public Accountants (AICPA) announced a "restatement of the legal compliance accounting principle" in *Audits of State and Local Governmental Units*. Prior to 1974, the Governmental Accounting Standards Board, and thus ASBO, stated the legal compliance principle as follows: "If there is a conflict between legal provisions and generally accepted accounting principles applicable to governmental units, legal provisions must take precedence. . . ."

AICPA stated: "The primary responsibility of governmental officials is to comply with the law and one of the purposes of the accounting system is to enable ready disclosure of compliance with appropriate legal provisions. However, this requirement for compliance to be expressed in the accounting system does not obviate generally accepted accounting principles for purposes of reporting financial position and results of operations. In financial reporting, in the event of conflict between legal provisions and generally accepted accounting principles, the latter should take precedence. Accordingly, the following restatement of the legal compliance accounting principle is appropriate:

> "A governmental accounting system should incorporate such accounting information in its records as necessary to make it possible to both (a) show compliance with all applicable legal provisions and (b) present fairly the financial position and results of operations of the respective funds and financial position of the self-balancing account groups of the governmental unit in conformity with generally accepted accounting principles. Where these two objectives are in conflict, generally accepted accounting principles take precedence in financial reporting.
>
> "Where there is a need to report the compliance of financial transactions with legal requirements and it can be reported in supplemental schedules, this form should be used."

BALANCE SHEET HEADING

The financial statement must be identified properly. The name of the school system is indicated first, followed by the name of the specific fund represented by the statement, then by the name of the financial statement. In this case it is the balance sheet. A balance sheet is prepared at a specific date only, as each subsequent transaction will affect the financial position. Therefore, the date on which the balance sheet is prepared is important.

ACCOUNT PRESENTATION OF THE BALANCE SHEET

The presentation of assets and liabilities on the balance sheet follows a definite pattern. Under the heading of assets, each asset account having a balance at that date is listed. As a general rule, assets are listed in order of their liquidity or in the order in which they may be expected to be converted into cash. However, for ease in preparing financial statements and for convenience in comparing one financial statement with those of prior periods, once the account pattern of presentation is established, it should be continued in the same order.

Liabilities are listed, as a general rule, in the order that payment is due. Those to be paid from the current year's revenues and during the current year are listed as current liabilities. If, however, liabilities do not mature during the current year but are due in a subsequent year, they should be identified as being long-term liabilities. Usually the period of time which distinguishes between a current liability and a long-term liability is one year. Long-term liabilities are listed in the order of anticipated liquidation. Again, once a pattern is established, accounts are presented in the same order for ease in preparing financial statements and for convenience in comparing one fiscal period's report with another.

THE EFFECT OF TRANSACTIONS ON THE ACCOUNTING EQUATION

The preceding illustrated transactions did not affect the fund equity account balance. It remained at $10,000. However, many transactions do take place that change the amount of the fund equity. Briefly, all revenues of a fund increase the fund equity while all expenditures (expenses) decrease the fund equity. For accounting to disclose the nature of and the amount of each revenue and expenditures, the equation is expanded to the following:

Assets = Liabilities + (Fund Equity + Revenues − Expenditures).

REVENUE DEFINED

The gross increase in fund equity during a designated period of time is referred to as revenue. To identify revenue better, it is frequently referred to as income, a major source of purchasing power. Revenue is realized when assets are increased without increasing liabilities or without incurring an expenditure reimbursement. In GASB's Statement 2, "Grant, Entitlement, and Shared Revenue Accounting and Reporting by State and Local Governments", it states: "Grants, entitlements, or shared revenues recorded in governmental funds should be recognized as revenue in the accounting period when they become susceptible to accrual, i.e., both measureable and available (modified accrual basis)."

EXPENDITURE DEFINED

The term "expenditure" is defined as the cost of goods acquired or the cost of services secured, whether paid or unpaid, and includes expenses, provision for retirement of debt not reported as a liability of the fund from which retired, and capital outlays. The term "expenditure" is entirely different from the term "disbursements".

Assets of a long-term or fixed nature such as land, building, machinery and equipment may be acquired by an expenditure from a fund in which the expenditure would be classified as 'capital outlay'. In financial accounting for school systems, assets of a fixed nature that are not a part of an enterprise fund, an internal service fund, or trust fund are accounted for in a separate group of accounts referred to as the general fixed assets account group.

The term "expenditure" also includes expenses. The Governmental Accounting Standards Board defines expenses as those charges incurred, whether paid or unpaid, for operation, maintenance, and interest, and other charges which are presumed to benefit the current fiscal period. The term "expenditures" is used in the general fund, special revenue funds, capital projects funds and debt service funds instead of "expenses" where the focus is on "spending" or decreasing the fund's net financial resources rather than on "net income." The term "expense" is used in proprietary funds, i.e., internal services funds and enterprise funds.

ILLUSTRATION

1. Assume that a fund is established having balances as follows:

	Assets	=	Liabilities	+	Fund Equity
(1)	$15,000	=	$5,000	+	$10,000

2. Now, assume that the fund has authority to assess and levy a tax of $30,000. The claim against taxpayers increases assets of the fund, and at the same time the tax levy produces a revenue for the fund. Therefore, the cumulative effect of the transaction is as follows:

	Assets		Liabilities	=	Fund Equity	+	Revenues
(1)	$15,000	=	$5,000	+	$10,000		
(2)	30,000	=					30,000
	$45,000	=	$5,000	+	$10,000	+	$30,000

3. Further, assume that salaries are paid by the fund in the amount of $3,000. This transaction decreases the assets when cash is paid and increases expenditures by $3,000. The cumulative effect of the three transactions is shown as follows:

	Assets	=	Liabilities	+	Fund Equity	+	Revenues	−	Expenditures
(1)	$15,000	=	$5,000	+	$10,000				
(2)	30,000	=					$30,000		
(3)	-3,000	=						−	$3,000
	$42,000	=	$5,000	+	$10,000	+	$30,000	−	$3,000

4. Assume that the assets of $42,000 are made up of: cash in bank, $8,000; taxes receivable, $30,000; temporary investments, $4,000. If these facts are known, it will be possible to prepare the two basic financial statements for the fund. One financial statement is the balance sheet and the other is the statement of revenues, expenditures, and fund equity. The latter presents the results of operation of the fund for a certain period of time while the balance sheet shows the financial position of the fund at a particular date. The statement of revenues, expenditures and fund equity is as follows:

Exhibit B

NEW HOPE SCHOOL SYSTEM
General Fund
Statement of Revenues, Expenditures, and Fund Equity
For the period ended (month and date), 19-

Fund equity, beginning of period		$10,000
Add excess revenues over expenditures:		
Revenues	$30,000	
Less: Expenditures	3,000	27,000
Fund equity, end of period		$37,000

The statement of revenues, expenditures, and fund equity computes the amount of the fund equity at the close of the accounting period. This is a vital figure in the preparation of the balance sheet at the close of the accounting period as it represents the difference between the fund's assets and liabilities. The balance sheet showing the financial position of the general fund appears as follows:

Exhibit A

NEW HOPE SCHOOL SYSTEM
General Fund
Balance Sheet
(Date)

Assets	
Cash in bank	$ 8,000
Taxes receivable	30,000
Temporary investments	4,000
Total assets	$42,000
Liabilities and Fund Equity	
Liabilities:	
Loan from other funds	$ 5,000
Fund equity:	
Fund equity	37,000
Total liabilities and fund equity	$42,000

Through the balance sheet and the statement of revenues, expenditures and fund equity, it is possible for general fund accounting to be consistent with recommendations of the Association of School Business Officials of the United States and Canada. An accounting system must make it possible to reflect the financial condition and the financial operation of each fund and account group used in financial management of the school system.

Chapter 3
General Principles of School Fund Accounting

QUESTIONS

3-1. What is the major function of accounting and how is accomplishment of this major function made possible?

3-2. List the steps that should be used in analyzing and recording transactions.

3-3. What types of accounts are included in the school fund accounting equation?

3-4. Name and describe five accounts that may be classified as assets on the balance sheet.

3-5. Name and describe four accounts that may be included as liabilities on the balance sheet.

3-6. What is "fund balance" and to what is it equal?

3-7. In what way does the "account form" balance sheet differ from the "report form" balance sheet?

3-8. What are the general rules governing listing assets and liabilities on the balance sheet?

3-9. Define the terms "revenues" and "expenditures" and distinguish between expenditures and disbursements.

3-10. Prepare a balance sheet for the general fund of Monroe School System as of December 3l, 19--, in account form from the following data:

Cash	?
Receivable from the City of Monroe	$ 8,250
Buildings	12,000
Taxes receivable	7,205
Tax anticipation notes payable	8,350
Accounts payable	1,650
Fund balance	20,000

3-11. The nature of an account can usually be determined from the account name. (a) What word or phrase generally indicates that an account is an asset account? (b) What word or phrase generally indicates that an account is a liability account?

3-12. What effect do revenue and expenditure accounts have on the fund balance account?

3-13. What is meant by a "self-balancing" group of accounts?

3-14. If legal provisions and sound accounting principles conflict, which has precedence for financial statement reporting?

CASES AND PROBLEMS

3-1. On January 1, 19--, the account balances of the general fund of Tolson Township School System were:

Assets:	
Cash	$12,000
Taxes receivable	6,000
Investments	2,000
Liabilities:	
Due to other funds	4,000
Fund balance:	
Fund balance	16,000

The following transactions took place prior to June 30 of that year:

A. $5,500 of the taxes receivable was collected.

B. A cash payment of $3,000 was made on amounts due to other funds.

C. The investments were sold for $2,000 cash.

INSTRUCTIONS:

1. Using the accounting equations with headings as indicated, record (a) the beginning balances and (b) the transactions.
2. Prepare a balance sheet in account form as of June 30, 19--.

3-2. On January 1, 19--, the account balances of the general fund of the Spring Falls School System were:

Assets:	
Cash	$12,200
Taxes receivable	44,360
Due from state	19,800
Liabilities:	
Accounts payable	4,140
Contracts payable	8,000
Fund balance:	
Fund balance	64,220

During the year the following transactions occurred:

A. Taxes amounting to $44,360 were collected.
B. Payments on contracts totaled $6,000.
C. $4,000 was paid on accounts payable.
D. Supplies were purchased for $3,220 cash.
E. Salaries amounting to $34,450 were paid.
F. Fuel amounting to $2,560 was purchased on account.
G. Taxes amounting to $45,320 on personal property were levied.
H. The total amount due from the state was collected.

INSTRUCTIONS:

1. Using the accounting equation with the account titles as of January 1, 19--, add columns for "revenue" and "expenditure" accounts, enter the balances of January 1, 19--, and record the transactions.
2. Prepare a statement of revenues, expenditures and fund balance for the year ended December 31, 19--.
3. Prepare, in report form, a balance sheet as of December 31, 19--.

3-3. The following account balances of the general fund of the School System of Forlorne Foundation as of December 31, 19--, appear as follows:

Taxes receivable	$ 3,821
Accounts payable	5,228
Fund balance	31,437
Taxes receivable—delinquent	1,248
Revenues	41,580
Judgment payable	4,000
Due from state	21,280
Expenditures	40,132
Cash	15,764

INSTRUCTIONS:

1. Prepare a statement of revenues, expenditures and fund balance for the year ended December 31, 19--.
2. Prepare in report form a balance sheet as of December 31, 19--.

4

THEORY OF DEBITS AND CREDITS

Each financial transaction of a school system increases or decreases the balances of affected accounts in one or more funds and/or account groups. Accounting shows each increase and decrease through the use of debits and credits.

A debit or a credit will have a different effect on different kinds of accounts. Therefore, the theory of debits and credits has to be studied, understood, and used in relation to the various kinds of accounts within a fund. In this chapter the theory of debits and credits will be developed around those accounts commonly used by funds. They are: assets, liabilities, fund equity, revenues, and expenditure accounts. For those funds subject to formal budgetary control, additional accounts required are: budgeted fund balance, estimated revenues, appropriations, encumbrances, and reserve for encumbrances. The theory of debits and credits as it applies to budgetary accounts will be discussed in detail in chapter 8.

DERIVATION OF THE WORDS "DEBIT" AND "CREDIT"

The Latin word debeo means "owe." The history of the use of this word as it applies to accounting began when the only transactions necessary to be recorded were those with customers or suppliers. A charge against a person who owes appears on the left side of an account with that person. The left side of the account is the "debit" side.

The Latin word credo means "trust" or "believe." The history of this word as it applies to accounting began at the same time as the word debit. The amount shown as owed to a person who trusts us appears on the right side of the account. The right side of an account is referred to as the credit side.

BASIC ACCOUNTING CHART

The following chart is presented to show whether or not a debit or a credit indicates an increase or a decrease in each account type. You will notice that debits in some cases indicate an increase in an account type, while in other account types, a debit indicates a decrease. It is important to remember that debits do not always indicate an increase nor do credits always indicate a decrease in the balance of an account.

Assets		=	Liabilities		+	Fund Equity		+	Revenues		—	Expenditures	
Increase	Decrease		Decrease	Increase		Decrease	Increase		Decrease	Increase		Increase	Decrease
Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit		Debit	Credit

In analyzing a transaction, the problem is to determine whether an account is increased or decreased. If a transaction results in the increase of an asset, the increase is indicated by entering the amount of the increase on the debit side of the appropriate asset account. Conversely, if a transaction decreases an asset, the decrease is shown by entering the amount on the credit side of the appropriate asset account. Even though assets are different in nature from expenditures, the rule of debiting and crediting is the same for both assets and expenditures.

A different rule applies in the case of liability, fund equity, and revenue accounts. If a transaction increases a liability, fund equity, or revenue account, the increase is shown by entering the amount of the increase on the credit side of the appropriate account. Conversely, if a transaction decreases a liability, fund equity, or revenue account, the decrease is shown by entering the amount of the decrease on the debit side of the appropriate account.

RULES FOR APPLYING THE THEORY OF DEBITS AND CREDITS

From the basic accounting chart, rules for debiting and crediting the various kinds of accounts within a fund are established and may be stated as follows:

1. To increase an asset account, debit.
2. To increase an asset account, credit.
3. To increase a liability account, credit.
4. To decrease a liability account, debit.
5. To increase a fund equity account, credit.
6. To decrease a fund equity account, debit.
7. To increase a revenue account, credit.
8. To decrease a revenue account, debit.
9. To increase an expenditure account, debit.
10. To decrease an expenditure account, credit.

It is important to study each kind of account separately in order to distinguish between the effect that a debit has and the effect that a credit has. The ten rules just given for applying the theory of debits and credits can be stated briefly as follows:

1. To increase asset or expenditure accounts, debit.
2. To decrease asset or expenditure accounts, credit.

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3. To increase liability, fund equity or revenue accounts, credit.
4. To decrease liability, fund equity or revenue accounts, debit.

Each transaction must be analyzed to determine what accounts of the fund are involved and how each account is affected. There is no short-cut to these basic rules if accounting is to record each transaction fully.

THE EQUALITY OF DEBITS AND CREDITS RULE

For a fund or account group to be a separate, self-balancing group of accounts, the rule which requires that each transaction must have equal amounts as debits and credits must be applied. Each transaction has at least one debit and at least one credit and the total debits must equal the total credits. Quite frequently a transaction will have more than one debit or more than one credit. A transaction having more than one debit or more than one credit is referred to as a compound entry. In any case, however, each transaction must have equal debits and credits in amount.

Through the use of this theory, it is possible to establish and maintain accounting for school systems on a basis comparable to accounting for all other financial areas. When transactions are analyzed on this basis, school fund accounting is in agreement with and is consistent with the principles of accounting advocated by such professional organizations as the Governmental Accounting Standards Board, the Governmental Finance Officers Association, the American Institute of Certified Public Accountants, the American Accounting Association, and the Association of School Business Officials of the United States and Canada.

APPLICATION OF THE THEORY OF DEBITS AND CREDITS

Each fund transaction, when analyzed in terms of debits and credits, will have debits equaling the amount of the credits. Illustrations showing how the theory of debits and credits is applied to each transaction are presented as follows:

1. Assume that the assets of the New Hope School System's general fund, at the beginning of a year, total $10,000. They are shown on the debit side of the asset account. Assume further that no liabilities exist at that date, that no revenues are yet realized and that no expenditures have yet been made. Fund equity, therefore, exists in the amount of $10,000. These account balances at the beginning of the accounting period would be shown in the account types as follows:

Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
$10,000					$10,000				

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The debits of $10,000 equal the credits of $10,000 and the assets equal liabilities plus fund equity plus revenues minus expenditures.

2. Assume that taxes are assessed and levied in the amount of $30,000. This transaction increases assets by $30,000 and, at the same time, increases revenues by the same amount. Both transactions would appear as follows:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(1)	$10,000					$10,000				
(2)	30,000							$30,000		
	$40,000					$10,000		$30,000		

Transaction (2) has equal debits and credits. By combining both transactions, debits of $40,000 equal credits of $10,000 plus $30,000. The equation, assets equal liabilities plus fund equity, plus revenues, minus expenditures, has been maintained.

3. Assume that the school system borrows $5,000 from the bank. When the cash is received, assets will be increased by $5,000 and will be recorded by debiting assets. At the same time an obligation is created by the debt owed to the bank. The obligation is recorded by a credit to the liability account. The transaction appears as follows:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(3)	$5,000			$5,000						

4. Assume that salaries are paid in the amount of $5,000. When cash is disbursed, assets are reduced. The reduction in assets is shown by a credit to assets. Expenditures are increased by the same amount and are shown by a debit to expenditures. This transaction appears as follows:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(4)		$5,000							$5,000	

5. Assume that $8,000 is collected from the taxes assessed and levied in transaction 2. This is an illustration of a transaction in which a reduction in one asset results in the increase of another. Therefore, to record the transaction, assets are debited for $8,000—the amount of the cash received— and assets are credited for the same amount which represents the reduction in the assets, taxes receivable. The transaction appears as follows:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(5)	$8,000	$8,000								

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6. Assume that the school system pays $4,000 to apply on the loan from the bank. The cash payment reduces assets and is recorded by crediting assets. The liability to the bank is reduced and a debit to liabilities records the reduction of $4,000. The transaction appears as follows:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(6)		$4,000	$4,000							

7. Assume that the school system lends $2,000 to the library fund. The claim against the library fund creates an account receivable, a new asset, which is shown by a debit to assets. Payment of cash reduces the asset, cash, and is shown by a credit to assets. The transaction appears as follows:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(7)	$2,000	$2,000								

8. Assume that the school system collects $6,500. Of this amount, $6,000 is from taxes receivable assessed and levied in transaction 2 and $500 is from interest earned. The asset, cash, is increased by a debit of $6,500. At the same time the asset, taxes receivable, is reduced by a credit of $6,000. In this transaction, $500 is revenue from interest earned. This revenue is recorded by a credit to the revenue account and the transaction appears as follows:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(8)	$6,500	$6,000						$500		

9. Assume that the school system pays salaries in the amount of $5,000. In the chart that follows, observe that the cost is recorded by a debit to expenditures and that the payment of cash is recorded by crediting assets on the line identified as (9).

The following chart shows the effect of the preceding transactions on the account classifications:

	Assets		= Liabilities		+ Fund Equity		+ Revenues		− Expenditures	
	Increase	Decrease	Decrease	Increase	Decrease	Increase	Decrease	Increase	Increase	Decrease
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
(1)	$10,000					10,000				
(2)	30,000							30,000		
(3)	5,000			5,000						
(4)		5,000							5,000	
(5)	8,000	8,000								
(6)		4,000	4,000							
(7)	2,000	2,000								
(8)	6,500	6,000						500		
(9)		5,000							5,000	
	61,500	30,000	4,000	5,000		10,000		30,500	10,000	

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THE TRIAL BALANCE

After analyzing and recording each transaction, a trial balance is prepared to prove the equality of debits and credits. The trial balance is presented as follows:

NEW HOPE SCHOOL SYSTEM
General Fund
Trial Balance
(Date)

	Debits	*Credits*
Assets	$61,500	$30,000
Liabilities	4,000	5,000
Fund equity		10,000
Revenues		30,500
Expenditures	10,000	
Total	$75,500	$75,500

The trial balance prepared in a way that shows the balance of each kind of account is most widely used. For instance, the balance of assets is $31,500 determined by subtracting credits of $30,000 from debits of $61,500. Because debits exceed credits, the balance is reported in the debit column. Balances of accounts are used in all financial statements and a trial balance showing such balances is presented below.

NEW HOPE SCHOOL SYSTEM
General Fund
Trial Balance
(Date)

	Debits	*Credits*
Assets	$31,500	
Liabilities		$ 1,000
Fund equity		10,000
Revenues		30,500
Expenditures	10,000	
Total	$41,500	$41,500

THE WORK SHEET

The trial balance has one primary purpose. It proves the equality of debits and credits. From the trial balance, the balance sheet and the statement of revenues, expenditures, and fund equity are prepared through the use of a work sheet. The work sheet is not a formal part of the accounting system but it is used as a device to group the balances of the fund's accounts according to the financial statement on which the account balance would appear. The work sheet is illustrated as follows:

NEW HOPE SCHOOL SYSTEM
General Fund
Work Sheet
(Date)

Account Title	Trial Balance		Statement of Revenues and Expenditures		Balance Sheet	
Assets	$31,500				$31,500	
Liabilities		$ 1,000				$ 1,000
Fund equity		10,000				10,000
Revenues		30,500		$30,500		
Expenditures	10,000		$10,000			
	$41,500	$41,500	$10,000	$30,500	$31,500	$11,000
Excess revenues over expenditures			20,500			20,500
			$30,500	$30,500	$31,500	$31,500

THE FINANCIAL STATEMENTS

From the work sheet, the two financial statements are prepared and appear as follows:

NEW HOPE SCHOOL SYSTEM
General Fund
Balance Sheet
(Date)

Assets		Liabilities and Fund Equity	
Assets	$31,500	Liabilities	$ 1,000
		Fund equity	30,500
Total assets	$31,500	Total liabilities and fund equity	$31,500

NEW HOPE SCHOOL SYSTEM
General Fund
Statement of Revenues, Expenditures, and Fund Equity
For the period ended ...., 19.....

Fund equity, beginning of period		$10,000
Add:		
Revenues	$30,500	
Less expenditures	10,000	
Excess of revenues over expenditures		20,500
Fund equity, end of period		$30,500

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Chapter 4
Theory of Debits and Credits

QUESTIONS

4-1. List the accounts by classification that would be increased, (a) by a debit, (b) by a credit.

4-2. Explain and give an example of a compound entry.

4-3. For what purpose is a trial balance prepared?

4-4. On what side of the trial balance would amounts of the following accounts appear: revenue, liabilities, assets, expenditures, fund equity?

4-5. What financial statements are prepared through the use of the figures on the trial balance?

4-6. Washington County School System wants you to prepare a trial balance in good form for June 30, 19--, from the following general fund account balances: assets, $59,500; liabilities, $22,000; fund equity, $18,000 on June 1, 19--; revenues, $38,500; expenditures, $19,000.

4-7. From the trial balance prepared in question 4-6, prepare a balance sheet and a statement of revenues, expenditures and fund equity for the month ending June 30, 19--.

4-8. List the accounts, by classification, that would be decreased (a) by a debit, (b) by a credit.

4-9. Assume taxes are assessed and levied in the amount of $15,000. The transaction was recorded as follows:

Revenues	
$15,000	

Cash	
	$15,000

Is this transaction recorded correctly? If not, what is wrong? How should it have been recorded if it was incorrectly recorded?

4-10. For each of the transactions below, indicate, (a) whether assets, liabilities, fund equity, revenues and/or expenditures would be affected by the transaction, (b) how the transaction affected each account, i.e., whether it increased or decreased the account affected, and (c) what account or accounts are to be debited or credited as a result of the transaction.

1. Taxes are levied in the amount of $5,000.
2. Payment of an installment on a loan from a bank.

3. The school system lends $3,000 to the county.
4. $2,000 is paid for last month's electricity.
5. $200 is paid for current month's transportation of students.

CASES AND PROBLEMS

4-1. Superior City School System has assets of $112,500 with no liabilities at the beginning of 19--. During the year the following transactions were completed:

A. Taxes were assessed and levied, $30,000.
B. Purchased new classroom equipment, $9,000 for cash.
C. Received cash of $7,000 from the City Bank by issuing a note payable.
D. Paid salaries, $4,000.
E. Tax collections, $22,000 from current year's assessment.
F. Heating cost paid amounted to $500.
G. Made partial payment of loan from the City Bank, $3,500.
H. Loaned $5,000 to the cafeteria fund.
I. Invested $2,000 in temporary certificates of deposit.
J. Paid salaries, $4,000.
K. Received a gift of $10,000 cash.
L. Additional tax collections, $6,000.

INSTRUCTIONS:

1. Record the beginning balances and record the fore going transactions using the format illustrated below. Identify each debit and credit by the letter corresponding to the transaction. Inc. = Increase; Dec. = Decrease.

Assets		Liabilities		Fund Equity		Revenues		Expenditures	
Inc.	Dec.	Dec.	Inc.	Dec.	Inc.	Dec.	Inc.	Inc.	Dec.
Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit

2. Prepare a trial balance which presents the balance of each kind of account.

4-2. Lake School System has assets of $247,100, liabilities of $70,000 and a fund equity of $177,100 as of September 1, 19--, the beginning of the fiscal year. During the fiscal year, the school system completed the following transactions:

A. Taxes assessed and levied, $75,000.
B. Temporary loan of $5,000.
C. Loaned $5,000 to Lake County.

D. Tax collections as follow: $50,000 from current year's assessment and $40,000 from prior year's assessment.
E. Paid salaries, $40,000.
F. Received cash of $10,000 from the federal government previously recorded as a revenue from a federal grant.
G. Paid $13,000 on accounts payable.
H. Purchased land on account for $7,000.
I. Collected tuition of $1,000.

INSTRUCTIONS:

1. Record the beginning balances and transactions for the year.
2. Prepare a trial balance and a work sheet from the foregoing data.

4-3. The trial balance of Lake School System as of August 31, 19--, is as follows:

LAKE SCHOOL SYSTEM
General Fund
Trial Balance
August 31, 19--

Accounts	*Debits*	*Credits*
Assets	$75,000	$47,000
Liabilities	8,000	13,000
General fund equity		5,000
Revenues		28,000
Expenditures	10,000	
Total	$93,000	$93,000

INSTRUCTIONS:
1. Prepare a work sheet.
2. Prepare a balance sheet.
3. Prepare a statement of revenues, expenditures and fund equity.

5

THE GENERAL LEDGER

An account is a device which accumulates the net effect of all financial transactions on one item of the balance sheet or statement of revenues, expenditures, and fund equity. The net effect of all transactions affecting the item is presented in the financial statements. In order to present more meaningful and more useful financial information, individual accounts are created which are identified by individual titles. The titles are descriptive of the nature of the asset, liability, fund equity, revenue, or expenditure account.

THE GENERAL LEDGER

In practice, no account is entitled "assets", "liabilities", "fund equity", "revenue", or "expenditure". Instead, many different asset, liability, fund equity, revenue, and expenditure accounts are created.

All asset accounts, therefore, are grouped on the balance sheet under the heading or classification title "assets." All liability accounts are classified under the title "liabilities". All fund equity accounts are classified under the title "fund equity". On the statement of revenues, expenditures and fund equity, all revenue accounts are listed or classified under the caption, "revenue", expenditure accounts are listed under the caption "expenditures", and all fund equity accounts are classified as "fund equity".

For a school system's general fund, a separate asset account may be provided for: petty cash, cash in bank, loans to other funds, accounts receivable, taxes receivable, temporary investments, and an account for each other kind of asset that may exist. Management controls are different for each kind of asset.

Descriptive titles are also used to identify each kind of liability that exists in a fund. For example, in the general fund, individual accounts are created to show accounts payable, notes payable, matured bonds payable, interest payable, temporary loans payable, and for other kinds of liabilities that may exist. These accounts are grouped on the balance sheet under the heading of "liabilities".

There are a number of individual fund equity accounts that appear on the balance sheet and/or on the statement of changes in fund equity. Each account serves a specific purpose which will become apparent and useful as financial transactions occur in the the general fund during the accounting period or during the accounting cycle. Those listed in 1980 by the National Center for Education Statistics in *Financial Accounting for Local and* State School Systems are: Reserve for inventories, reserve for prepaid expenses, reserve for encumbrances, reserved fund balance, and unreserved fund balance.

Identification of each source of revenue and a record of the amount from each source provides useful and meaningful financial information. Accounting provides this information by keeping separate revenue accounts for each source. The 1980 publication of the National Center for Education Statistics classifies revenue under the following principal sources:

- REVENUE FROM LOCAL SOURCES:
  - Taxes levied/assessed by the Local Education Agency (LEA)
  - Revenue from local governmental units other than LEAs
  - Tuition
  - Earnings on investments
  - Revenue from school-sponsored activities
  - Revenue from community services activities
  - Other revenue from local sources
- REVENUE FROM INTERMEDIATE SOURCES:
  - Unrestricted grants-in-aid
  - Revenue in lieu of taxes
  - Revenues for/on behalf of the LEA
- REVENUE FROM STATE SOURCES:
  - Unrestricted grants-in-aid
  - Revenue in lieu of taxes
  - Revenue for/on behalf of the LEA
- REVENUE FROM FEDERAL SOURCES:
  - Unrestricted grants-in-aid direct from the federal government
  - Unrestricted grants-in-aid from the federal government through the state
  - Grants-in-aid from the federal government through other intermediate agencies
  - Revenue in lieu of taxes
  - Revenue for/on behalf of the LEA

- OTHER SOURCES

It is important, too, to identify the purpose for which each expenditure is made and to record the amount of each expenditure. Separate expenditure accounts are maintained for each kind of expenditure to provide adequate internal financial and managerial control. The object classification contained in the 1980 publication of the National Center for Education Statistics lists the following:

Personal services-salaries
Personal services-employee benefits
Purchased professional and technical services
Purchased property services
Other purchased services
Supplies
Property
Other objects
Other uses

The 1980 publication of the National Center for Education Statistics also classifies expenditures by function as follows:

Instruction
Support services
  Support services-students
  Support services-instructional staff
  Support services-general administration
  Support services-school administration
  Support services-business
  Operation and maintenance of plant services
  Student transportation services
  Support services-central
  Facilities acquisition and construction services
  Other uses

When all account pages of a fund are grouped together, they become the general ledger. The Governmental Accounting Standards Board defined the general ledger as a book, file, or other device which contains the accounts necessary to reflect in summary or in detail the financial operations and the financial condition of the unit. The fund's general ledger is composed of the self-balancing group of accounts. The accounts must be maintained in balance as the financial statements of the fund are prepared from the accounts in the general ledger.

A general ledger is maintained for each fund of a school system. In many school systems, loose-leaf accounts rather than a bound book are used because they are more easily adaptable to machine accounting. Both general and subsidiary ledgers may be maintained through use of computers.

SEQUENCE OF ACCOUNTS IN THE GENERAL LEDGER

The sequence of accounts in the general ledger follows the order in which the accounts are presented on the financial statements—that is, assets are first, followed by liabilities, fund equity, revenue, and expenditure accounts. If the general ledger is in bound form, several blank pages should be provided between each grouping of accounts in order that future additional accounts may be placed among related accounts according to group classification.

ACCOUNT FORM

The form of the general ledger account is shown in Figure 1. For purposes of discussing how each column of the account is used certain information is placed on the account form shown in Figure 2.

FIGURE 1.
The Account Form

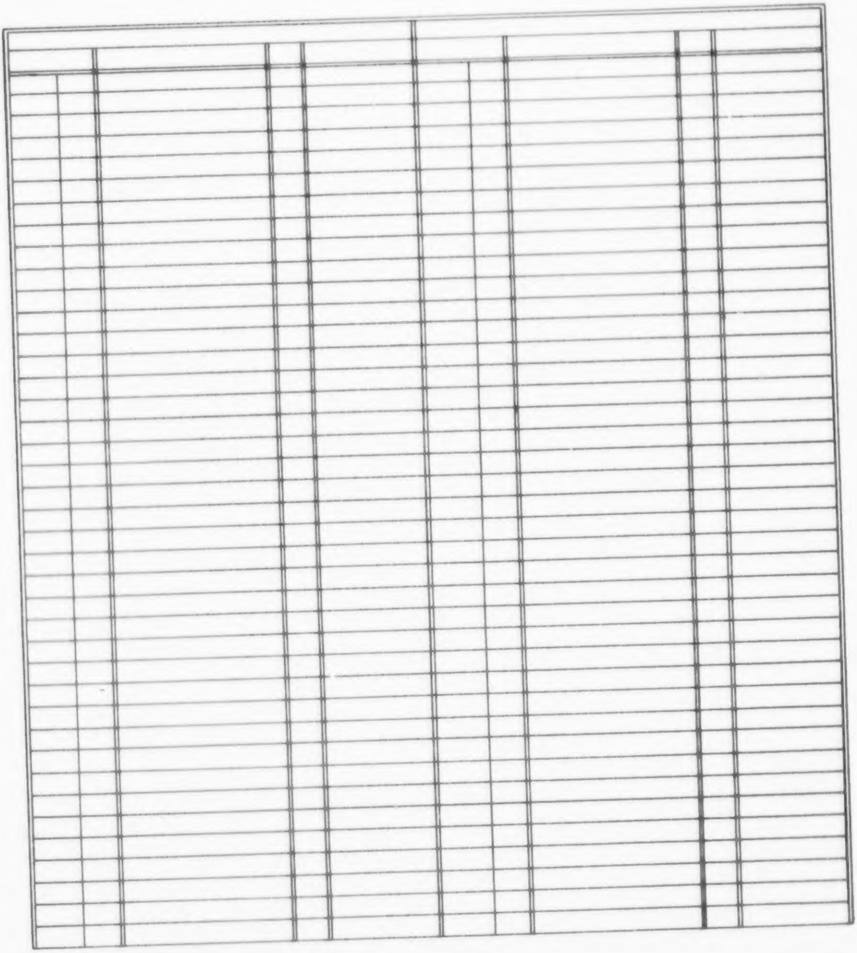
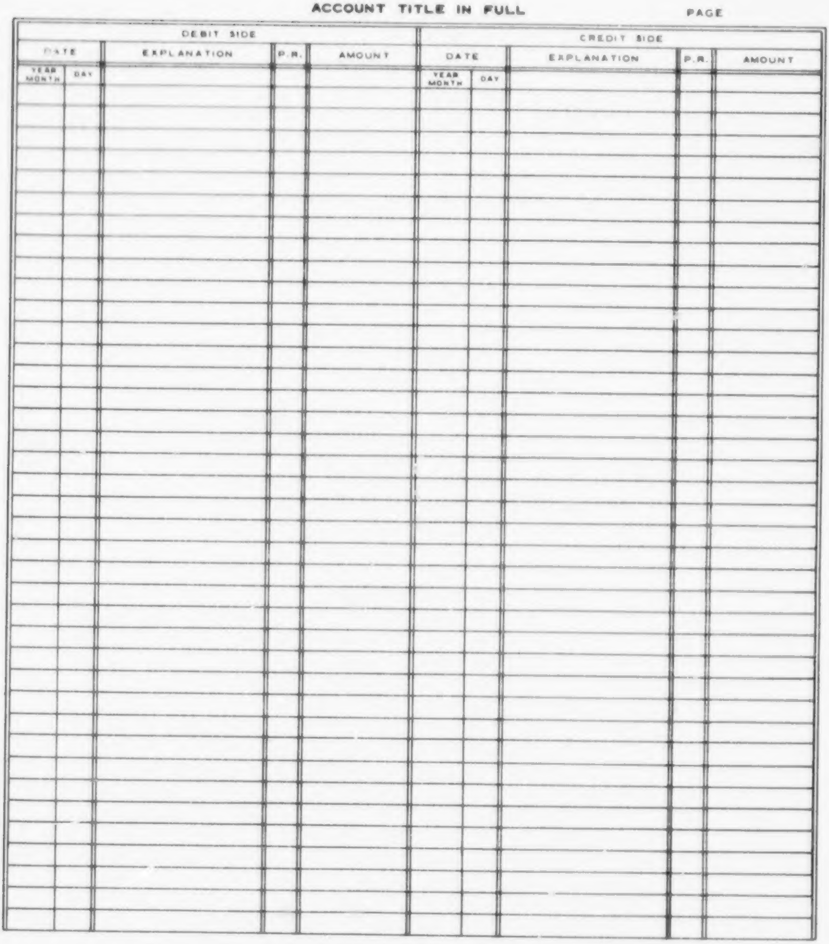


Figure 2.
Illustration of Column Uses in the Account



ACCOUNT TITLE IN FULL PAGE

DEBIT SIDE					CREDIT SIDE				
DATE		EXPLANATION	P.R.	AMOUNT	DATE		EXPLANATION	P.R.	AMOUNT
YEAR MONTH	DAY				YEAR MONTH	DAY			

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The account is divided into two sides. The left side is the debit side and the right side is the credit side. The form of this account can be used for all accounts whether they are assets, liabilities, fund equity, revenue, or expenditure accounts.

The date columns are used to record the date on which the transactions took place. The year and the month need not be repeated in the same column of the same page, as it is implied that the subsequent transactions occurred during the same year and month. When, however, the month or the year does change, it would be necessary to enter the appropriate year or month. Observe that a column is provided for the year and month and another is provided for the day on each side of the account.

The explanation column has a limited use which will be shown in illustrations; therefore, a discussion of its purpose will be postponed.

The folio column, identified as P.R., provides the posting reference or a cross-reference between the entries in the ledger accounts and the entries in the various journals of the fund. Through the use of this column, it is possible to trace the amount that appears in the account to the journal entry where the entire transaction is recorded.

The amount of the transaction is entered in the amount column on the appropriate side of the account. The title of the account is entered at the top and each account should have a separate page in the ledger. All accounts should be numbered in a planned sequence in the general ledger.

The complete account form will not be used in all illustrated transactions. However, sufficient illustrations are presented to assure a complete understanding of the proper use of the columns in the account.

USE OF A FUND'S FUND EQUITY OR FUND BALANCE ACCOUNT, ILLUSTRATED

Accounts which reflect assets, liabilities, fund equity, revenues, and expenditures frequently are referred to as proprietary accounts to distinguish them from budgetary accounts consisting of appropriations, estimated revenues, and encumbrances accounts. To illustrate the use of proprietary accounts of a fund, the nine transactions illustrated in chapter 4 will be used. Each transaction is analyzed in the same manner as illustrated in chapter 4; however, individual accounts are created to show the nature of each asset, liability, fund equity, revenue, or expenditure account. An illustration of how the cash account would appear after recording these transactions follows under the chapter heading entitled "The Account Illustrated in Detail."

1. Assume that the assets of the New Hope School System's general fund, at the beginning of a year, are: cash in bank, $1,000; taxes receivable, $6,000; and temporary investments, $3,000. Each asset account is debited for its respective amount and the fund equity account is credited for the total of $10,000. In "T" account form, the transactions are recorded as follows:

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The Asset Accounts

Cash in Bank	
(1) 1,000	

Taxes Receivable	
(1) 6,000	

Temporary Investment	
(1) 3,000	

The Fund Equity Account

Fund Equity	
	(1) 10,000

2. Assume that the taxes are assessed and levied in the amount of $30,000. This transaction increases taxes receivable by $30,000, and at the same time, it increases revenues by the same amount. This transaction is identified by the number (2) in the accounts.

The Asset Accounts

Cash in Bank	
(1) 1,000	

Taxes Receivable	
(1) 6,000	
(2) 30,000	

Temporary Investment	
(1) 3,000	

The Fund Equity Account

Fund Equity	
	(1) 10,000

The Revenue Accounts

Revenue from Tax Levy	
	(2) 30,000

3. Assume that the school system borrows $5,000 from the bank. When the cash is received, the asset account—cash in bank—will be increased by $5,000. At the same time an obligation is created by the debt owed to the bank. The liability account entitled "loans from bank" is credited for $5,000. The transaction is recorded in the accounts as indicated by number (3).

The Asset Accounts

Cash in Bank	
(1) 1,000	
(3) 5,000	

Taxes Receivable	
(1) 6,000	
(2) 30,000	

Temporary Investment	
(1) 3,000	

The Liability Accounts

Loans from Bank	
	(3) 5,000

The Fund Equity Account

Fund Equity	
	(1) 10,000

The Revenue Accounts

Revenue from Tax Levy	
	(2) 30,000

4. Assume that salaries are paid in the amount of $5,000. When cash is disbursed, the asset, cash in bank, is reduced by a credit. Expenditures are increased by a debit for the same amount to the salaries expenditures account as follows (only the amounts affected by the transaction are shown):

The Asset Accounts

Cash in Bank	
	(4) 5,000

The Expenditure Accounts

Salaries Expenditures	
(4) 5,000	

5. Assume that $8,000 is collected from the taxes assessed and levied in transaction (2). The asset account, cash in bank, is increased by $8,000 and the asset account, taxes receivable, is decreased by $8,000. The transaction is recorded in the two asset accounts as follows:

The Asset Accounts

Cash in Bank	
(5) 8,000	

Taxes Receivable	
	(5) 8,000

6. Assume that the school system pays $4,000 to apply on the loan from the bank. The payment reduces the asset, cash in bank, and it also reduces the liability, loan from bank. This transaction is recorded in the accounts as follows:

The Asset Accounts

Cash in Bank	
	(6) 4,000

The Liability Accounts

Loans from Bank	
(6) 4,000	

7. Assume that the school system lends $2,000 to the library fund. A loan creates a new asset, loans to other funds—library, which is shown by a debit. Payment of cash reduces the assets and is shown by a credit to the cash in bank account. The transaction is recorded as follows:

The Asset Accounts

Cash in Bank	
	(7) 2,000

Loans to Other Funds – Library	
(7) 2,000	

8. Assume that the school system collects $6,500, representing $6,000 from taxes receivable assessed and levied in transaction (2) and $500 from interest and penalties. This transaction is recorded as follows:

The Asset Accounts

Cash in Bank	
(8) 6,500	

Taxes Receivable	
	(8) 6,000

The Revenue Accounts

Revenue from Interest and Penalties	
	(8) 500

9. Assume that the school system pays salaries in the amount of $5,000. This is a repetition of transaction (4) and would be analyzed and recorded in the same way.

When each of the transactions is posted to the "T" accounts, they appear as follows:

The Asset Accounts

Cash in Bank

(1) 1,000	(4) 5,000
(3) 5,000	(6) 4,000
(5) 8,000	(7) 2,000
(8) 6,500	(9) 5,000
20,500	16,000

Taxes Receivable

(1) 6,000	(5) 8,000
(2) 30,000	(8) 6,000
36,000	14,000

Temporary Investment

(1) 3,000	

Loan to Other Funds – Library

(7) 2,000	

The Liability Accounts

Loan from Bank

(6) 4,000	(3) 5,000

The Fund Equity Account

Fund Equity

	(1) 10,000

The Revenue Accounts

Revenue from Tax Levy

	(2) 30,000

Revenue from Interest and Penalties

	(8) 500

The Expenditure Accounts

Salaries Expenditures

(4) 5,000	
(9) 5,000	
10,000	

THE TRIAL BALANCE

The trial balance prepared from the accounts appears as follows:

NEW HOPE SCHOOL SYSTEM
General Fund
Trial Balance
(Date)

Cash in bank	$ 4,500	
Taxes receivable	22,000	
Temporary investment	3,000	
Loan to other funds—library	2,000	
Loan from bank		$ 1,000
Fund equity		10,000
Revenue from tax levy		30,000
Revenue from interest and penalties		500
Salaries expenditures	10,000	
Total	$41,500	$41,500

The balances of the accounts are computed by adding the debits in each account and by adding the credits. In the event the debits exceed the credits, the difference represents the debit balance. If credits exceed debits, the difference represents the credit balance. From the trial balance, the work sheet is prepared.

THE WORK SHEET

The trial balance does not identify each of the accounts as either assets, liabilities, fund equity, revenue, or expenditure accounts. Therefore, it is the purpose of the work sheet to provide appropriate columns to which the accounts' balances can be distributed to the sets of columns representing each of the financial statements. Financial statements can be prepared directly from the trial balance but the more numerous the accounts, the greater the value of the work sheet. The work sheet prepared from the trial balance is presented here.

NEW HOPE SCHOOL SYSTEM

General Fund
Work Sheet
(Date)

	Trial Balance		Statement of Revenues and Expenditures		Balance Sheet	
			Expenditures	Revenues	Assets	Liabilities and Fund Equity
Cash in bank	$ 4,500				$ 4,500	
Taxes receivable	22,000				22,000	
Temporary investment	3,000				3,000	
Loan to other funds – library	2,000				2,000	
Loan from bank		$ 1,000				$ 1,000
Fund equity		10,000				10,000
Revenue from tax levy		30,000		$30,000		
Revenue from interest and penalties		500		500		
Salaries expenditures	10,000		10,000			
	$41,500	$41,500	$10,000	$30,500	$31,500	$11,000
Excess revenues over expenditures			20,500			20,500
			$30,500	$30,500	$31,500	$31,500

THE BALANCE SHEET

The balance sheet for the school system's general fund prepared from the work sheet appears as follows:

NEW HOPE SCHOOL SYSTEM

Exhibit A

General Fund
Balance Sheet
(Date)
Assets

Cash in bank		$ 4,500
Taxes receivable		22,000
Temporary investment		3,000
Loan to other funds—library		2,000
Total assets		$31,500
Liabilities and Fund Equity		
Liabilities		
Loan from other funds		$ 1,000
Fund equity:		
Fund equity, beginning of period	$10,000	
Add:		
Excess revenues over expenditures	20,500	
Fund equity, end of period		30,500
Total liabilities and fund equity		$31,500

THE STATEMENT OF REVENUES AND EXPENDITURES

The statement of revenues and expenditures for the general fund prepared from the work sheet appears as follows:

NEW HOPE SCHOOL SYSTEM Exhibit B
General Fund
Statement of Revenues and Expenditures
For the period ended ---- , 19-

Revenues:	
Revenue from tax levy	$30,000
Revenue from interest and penalties	500
Total Revenue	$30,500
Expenditures:	
Salaries expenditures	10,000
Excess revenues over expenditures	$20,500

THE ACCOUNT ILLUSTRATED IN DETAIL

Illustrated transactions have been presented in a modified form of the account, usually referred to as the "T" account. The following cash account is presented to illustrate a complete form of an account and its use. The number appearing in the day column corresponds to the number of the illustrated transaction affecting the cash account.

Although this discussion refers only to the illustrated cash account, each account in a ledger is made up of the same component parts and, therefore, the observations that follow are applicable to all accounts:

Illustration of the Cash Account

CASH IN BANK PAGE 1

DATE			LF	AMOUNT	DATE			LF	AMOUNT
19--					19--				
Jan.	1			1,000	Jan.	4			5,000
	3			5,000		6			4,000
	5			8,000		7			2,000
	8	4,500		6,500		9			5,000
				20,500					16,000

1. A complete record of all transactions affecting the account has been made in the account.

2. The date on which each transaction took place is in the date column on either the debit or credit side, depending upon the nature of the transaction. The year or month are not repeated but are changed only when a change occurs in the year or month.

3. The total of each money column is written in small pencil figures placed in the uppermost section of the line below the last figure entered in the column. If only one amount appears in the column, a pencil total is not necessary.

4. Total debits in the illustration are $20,500 and total credits are $16,000. The difference between debits and credits is $4,500. As the debits exceed the credits, the account is said to have a debit balance. For convenience in preparing the trial balance and for future reference, the amount of the balance is indicated by small pencil figures placed in the explanation column of the debit or credit side, whichever indicates the nature of the balance.

5. Even though small pencil figures appear in the uppermost section of the line, it is important to avoid skipping a line in a ledger account. The pencil figures need not be erased, but in future computations they may be used as a time saving device. The use of every line in the account prevents the insertion of unauthorized entries.

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Chapter 5
The General Ledger

QUESTIONS

5-1. Distinguish between an account and a ledger.

5-2. Give the usual order in which accounts appear in the general ledger.

5-3. During November the City Schools of Bridgeport received cash in the amount of $1,500. In the same month $1,000 was paid. How are these figures shown in the cash account?

5-4. Name the kinds of accounts frequently referred to as proprietary accounts.

5-5. For what type of accounts may the general ledger account form be used?

5-6. What purpose is served by using every line of a ledger account?

5-7. How are accounts kept in order in the general ledger?

5-8. What purpose does the folio column in the general ledger serve?

5-9. How is the balance of an account determined and what determines whether it is a debit balance or a credit balance?

5-10. What type of account is each of the following? Indicate whether the usual balance of each is a debit or credit:
a) loan to other funds
b) salaries expenditures
c) taxes receivable
d) loan from other funds
e) revenue from tax levy

5-11. What is the purpose of the work sheet?

CASES AND PROBLEMS

5-1. The City Schools of Bridgman has accounts in its general ledger on June 1, 19--, with balances as follows:

	Debit	*Credit*
Cash	$ 3,000	
Taxes receivable	100	
Investments	10,000	
Fund balance		$13,100

The following transactions occurred during June 19--:

A. Property taxes of $25,000 were assessed and levied.
B. Salaries paid for the month were $2,500.
C. Collected $10,000 from taxes that had been assessed and levied.
D. Loaned $2,000 to the central stores fund.
E. Loaned $500 to library to purchase new books.
F. Received $400 interest on investments.

INSTRUCTIONS:

1. Record the beginning balances in "T" accounts.
2. Record the transactions for June in "T" accounts.
3. Prepare a trial balance as of June 30, 19--.

5-2. On June 30, 19--, the City Schools of Newport had the following trial balance from the general fund:

CITY SCHOOLS OF NEWPORT
General Fund
Trial Balance
June 30, 19-

	Debit	*Credit*
Cash	$ 8,000	
Investment	25,000	
Taxes receivable	12,000	
Vouchers payable		$10,000
Fund balance		10,000
Revenue from tuition		5,000
Revenue from taxes		31,000
Expenditures, salaries and wages	10,000	
Expenditures, professional services	1,000	

INSTRUCTIONS:

1. Prepare a work sheet.
2. Prepare a statement of revenues and expenditures.
3. Prepare a balance sheet which analyzes fund equity.

5-3. The Pineville School System had the following accounts in the general ledger of its general fund on June 1, 19--:

Cash	$ 3,000
Investments	2,000
Due to county	4,000
Fund balance	1,000

The following transactions occurred in June:

A. Collected cash for tuition in amount of $7,000.
B. Assessed and levied property taxes in the amount of $2,300.
C. Collected property taxes of $1,300 that had been assessed and levied.
D. Paid salaries of $3,000.

INSTRUCTIONS:

1. Record beginning balances in "T" accounts.
2. Record the transactions in "T" accounts.
3. Prepare a trial balance.

5-4. The City Schools of Sawyer have the following account balances in the general fund as of June 1, 19--:

Cash	$ 8,000	
Taxes receivable	24,000	
Due from state government	17,240	
Due from county	8,600	
Vouchers payable		$27,140
Due to library		12,000
Due to road commission		3,900
Fund balance		14,800
	$57,840	$57,840

During the month the following transactions occurred:

A. Payment of $3,000 to library was made.
B. $6,720 was collected from taxes receivable.
C. Collected part of amount due from county, $800.
D. Collected part of amount due from state government, $10,020.
E. Payment on vouchers payable amounted to $16,260.
F. Salaries vouchered for the month were $4,000.
G. Taxes on real property were assessed and levied in the amount of $25,000.
H. Loaned $1,000 to the student newspaper fund.

INSTRUCTIONS:

1. Record the beginning balances in "T" accounts.
2. Record the transactions for June in "T" accounts.
3. Prepare a trial balance as of June 30, 19--.
4. Prepare a work sheet.
5. Prepare a statement of revenues and expenditures.
6. Prepare a balance sheet which analyzes fund equity.

6

FINANCIAL DATA PROCESSING—FROM THE PEN TO THE COMPUTER

In the illustration in chapter 5, a complete transaction was not recorded at one place but a part of the transaction was debited to one account and another part was credited to a different account. The debits and credits were entered in separate accounts on different pages of the ledger. Therefore, from the ledger accounts it is difficult to determine fully the nature of each transaction.

PURPOSE OF THE GENERAL JOURNAL

The general journal provides a systematic way by which each transaction is analyzed and recorded completely in one place. The title of each account debited and credited appears in the general journal and the entry shows the amount by which each account is affected. Space is also provided for full explanation of the transaction. The general journal is referred to frequently as a book of original entry.

ILLUSTRATION OF THE GENERAL JOURNAL

Illustrations of how the general journal is used are presented and are based upon the nine transactions in chapters 4 and 5. The number that appears in the date column of the general journal corresponds to the transaction numbers in chapters 4 and 5. A complete, yet concise, description of the individual transaction follows each entry.

DISCUSSION OF THE GENERAL JOURNAL ILLUSTRATIONS

The following points should be observed about the use of the general journal:

1. Each general journal page has an appropriate heading which includes a full description of the fund to which the transactions apply. The fact that it is a general journal is stated in the title. Each page in the general journal is numbered, serving two purposes.

A. Every page in the general journal is accounted for by a number, thereby assuring that no page of transactions of the fund is missing.

B. The page number on which the complete transaction is recorded is important as a cross-reference in the process of posting. This process will be discussed later in this chapter.

NEW SCHOOL DISTRICT
GENERAL FUND
GENERAL JOURNAL

PAGE 1

DATE		AMOUNT TITLES AND EXPLANATIONS	P.R.	DEBIT	CREDIT
19--					
Jan.	1	Cash in bank		1,000	
		Taxes receivable		6,000	
		Temporary investment		3,000	
		Fund equity			10,000
		To record resources assigned			
		to the new school district			
		per ordinance dated January			
		1, 19 --.			
	2	Taxes receivable		30,000	
		Revenue from tax levy			30,000
		To record levy of the tax			
		authorized by ordinance			
		dated January 2, 19--.			
	3	Cash in bank		5,000	
		Loan from other fund			5,000
		To record loan from city's			
		general fund.			
	4	Salaries expenditures		5,000	
		Cash in bank			5,000
		To record payment of			
		salaries.			
	5	Cash in bank		8,000	
		Taxes receivable			8,000
		To record collection of			
		taxes receivable.			
	6	Loan from other fund		4,000	
		Cash in bank			4,000
		To record payment to city's			
		general fund in partial			
		repayment of loan.			
		Total debits and credits,			
		this page		62,000	62,000

2. The year is written at the top of the column provided for the date. If a loose-leaf general journal is used, it is important that the year be indicated on each page. The month during which the transaction occurred is written or abbreviated in the month column. The day is recorded in the day column. The year and month of each transaction are not repeated on the same page as long as succeeding transactions occur during the same month and year.

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3. The theory of debits and credits is applied to each transaction recorded in the general journal.
4. The account to be debited is indicated by writing the full title of the account flush with the date column. The amount of the debit is entered in the debit amount column which is the amount column on the left.
5. The account to be credited is indicated by writing the full title of the account at an indented position. Uniformity of indention is important for identifying each account being credited and for establishing a consistent general journal format. The amount of the credit is entered in the credit amount column which is the amount column on the right.

NEW SCHOOL DISTRICT
GENERAL FUND
GENERAL JOURNAL

PAGE 2

19--					
Jan.	7	Loan to other fund		2,000	
		Cash in bank			2,000
		To record loan to other fund			
	8	Cash in bank		6,500	
		Taxes receivable			6,000
		Revenue from interest and			
		penalties			500
		To record collection of taxes			
		receivable with interest and			
		penalties			
	9	Salaries expenditures		5,000	
		Cash in bank			5,000
		To record payment of salaries			
		Total debits and credits, this			
		page		13,500	13,500

6. An accurate but concise explanation of each transaction is written immediately below the account titles used in the entry. Placement of each explanation is also indented; however, the indention is not as much as required for the account title or titles being credited. The difference in indention distinguishes clearly between accounts being debited, accounts being credited, and the explanation.
7. All lines of the general journal are used. By using each line, the possibility of inserting an unauthorized entry is avoided. If space at the bottom of a general journal page does not permit recording the next entry completely, a diagonal line is drawn through each of the remaining unused lines to prevent insertion of unauthorized entries.
8. Each page of the general journal may be totaled to prove that the debits and credits equal on that page. An alternative procedure may carry totals forward to succeeding pages, thereby developing cumulative totals for the accounting period.
9. The general journal can be in book form, loose leaf form, or the original entry can be recorded by computer. It is the book in which each transaction is first recorded completely and is a permanent part of the accounting records.

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It is important that these basic rules or points be consistently followed in order that, on inspection, the accounts debited and credited and the explanations of each transaction will be quickly and easily identified.

POSTING FROM THE GENERAL JOURNAL TO THE GENERAL LEDGER

The process of transferring information contained in the general journal to the affected accounts in the general ledger is referred to as "posting." Posting consists of a systematic procedure whereby each amount in the debit column in the general journal is transferred to the debit side of the general ledger account identified in the general journal entry. Likewise, each amount in the credit column is transferred to the credit side of the general ledger account identified by the general journal entry. A systematic process of posting can prevent errors which might otherwise occur. Even though the totals of each page in the general journal are equal, it would be impossible for the accounts in the general ledger to be in balance if an error occurs in the process of posting.

One of the most common types of errors that occur in the posting process is transposition of figures. To illustrate, assume that the amount in the debit column of the general journal is recorded as $432.56. A transposition of figures may record the transaction in the affected account as $423.56. It is obvious that it would be impossible for the "self-balancing" general ledger to be kept in balance if transpositions occur. To assist in detecting a transposition error, the difference between the two figures can be divided by 9.

POSTING PROCEDURE

A systematic procedure for posting tends to reduce the possibility of error. The following steps are required when posting from a general journal to an account in the general ledger.

1. The amount in the general journal is recorded in the appropriate side of the affected account in the general ledger.
2. The date of the entry in the general journal is recorded in the date column of the ledger account.
3. The page number of the general journal on which the transaction has been recorded as an entire entry is posted to the posting reference column on the appropriate side of the account. By posting the general journal page number, it is possible that each amount that appears in a ledger account can be traced to the general journal to find the exact nature of the entire transaction. This is the cross-referencing feature of the accounts in the general journal and the general ledger. Posting references tie the journal and ledger together in an orderly manner.
4. In the posting reference column of the general journal, it is necessary that the page number of the general ledger account to which the amount was posted be entered. This is the final phase of the cross referencing process between the general journal and the general ledger.

The cross-referencing process accomplishes the vital framework for a complete and orderly accounting system. It provides a way by which any item in the general journal can be traced to the appropriate account in the general ledger and it also provides the way be which any amount in the general ledger account can be traced to the general journal. When entries are made in the posting reference columns of the general journal and the general ledger accounts, they indicate that the posting process has been completed.

If a systematic procedure is used in the process of posting, interruptions during the process will cause little or no difficulty. The page number of the account appearing in the posting reference column of the general journal indicates the last posting completed. There would be only a slight duplication of work to trace the posting to the precise point at which work was interrupted.

ILLUSTRATION OF THE POSTING PROCESS

The illustrations that follow show the general journal after the transactions have been posted to the general ledger. Previous illustrations did not include posting reference page numbers. By tracing each posting reference page number to the general ledger accounts, it is possible to follow the posting process. The page numbers are entered in the posting reference column at the time the individual item is posted. An audit trail is provided which makes it possible to follow any component part of a transaction from the original entry to the financial statements. A check mark is placed in the posting reference column opposite page totals of the general journal to prevent an attempt to post them.

After posting from the journal, the ledger accounts would appear as shown. By tracing an amount that appears in any one of the accounts to the general journal page number, it is possible to get a clear understanding of the posting process.

NEW SCHOOL DISTRICT

GENERAL FUND
GENERAL JOURNAL

PAGE 1

19--					
Jan.	1	Cash in bank	1	1,000	
		Taxes receivable	2	6,000	
		Temporary investment	3	3,000	
		Fund equity	6		10,000
		To record resources assigned			
		to the new school district			
		per ordinance dated January			
		1, 19--.			
	2	Taxes receivable	2	30,000	
		Revenue from tax levy	7		30,000
		To record levy of tax authori-			
		ized by ordinance dated			
		January 2, 19--.			
	3	Cash in bank	1	5,000	
		Loan from other fund	5		5,000
		To record loan from city's			
		general fund.			
	4	Salaries expenditures	9	5,000	
		Cash in bank	1		5,000
		To record payment of salaries.			
	5	Cash in bank	1	8,000	
		Taxes receivable	2		8,000
		To record collection of taxes			
		receivable.			
	6	Loan from other fund	5	4,000	
		Cash in bank	1		4,000
		To record payment to city's			
		general fund in partial re-			
		payment of loan.			
		Total debits and credits, this page	✓	62,000	62,000

NEW SCHOOL DISTRICT

GENERAL FUND
GENERAL JOURNAL

PAGE 2

19--					
Jan.	7	Loan to other fund	4	2,000	
		Cash in bank	1		2,000
		To record loan to other fund.			
	8	Cash in bank	1	6,500	
		Taxes receivable	2		6,000
		Revenue from interest and penalties	8		500
		To record collection of taxes receivable			
		with interest and penalties.			
	9	Salaries expenditures	9	5,000	
		Cash in bank	1		5,000
		To record payment of salaries.			
		Total debits and credits, this page	✓	13,500	13,500

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When all transactions of the fiscal period have been analyzed, recorded, and posted, the balance of each account in the general ledger is computed. The balances of each account are shown in the following:

CASH IN BANK

PAGE 1

19--					19--				
Jan.	1		1	1,000	Jan.	4		1	5,000
	3		1	5,000		6		1	4,000
	5		1	8,000		7		2	2,000
	8	4,500	2	6,500		9		2	5,000
				20,500					16,000

TAXES RECEIVABLE

PAGE 2

19--					19--				
Jan.	1		1	6,000	Jan.	5		1	8,000
	2	22,000	1	30,000		8		2	6,000
				36,000					14,000

TEMPORARY INVESTMENT

PAGE 3

19--									
Jan.	1		1	3,000					

LOAN TO OTHER FUND

PAGE 4

19--									
Jan.	7		2	2,000					

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LOAN FROM OTHER FUND

PAGE 5

19--					19--				
Jan.	6		1	4,000	Jan.	3	1,000	1	5,000

FUND EQUITY

PAGE 6

					19--				
					Jan.	1		1	10,000

REVENUE FROM TAX LEVY

PAGE 7

					19--				
					Jan	2		1	30,000

REVENUE FROM INTEREST AND PENALTIES

PAGE 8

					19--				
					Jan.	8		2	500

SALARIES EXPENDITURES

PAGE 9

19--									
Jan.	4		1	5,000					
	9	10,000	2	5,000					
				10,000					

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PROCEDURE AFTER POSTING

Once the balances of the accounts in the general ledger have been determined, the next step is the preparation of the trial balance. The trial balance appears as follows:

NEW HOPE SCHOOL SYSTEM
General Fund
Trial Balance
(Date)

Cash	$ 4,500	
Taxes receivable	22,000	
Temporary investment	3,000	
Loan to other fund—library	2,000	
Loan from bank		$ 1,000
Fund equity		10,000
Revenue from tax levy		30,000
Revenue from interest and penalties		500
Salaries expenditures	10,000	
Total	$41,500	$41,500

The trial balance composes the first two columns of the work sheet. A work sheet becomes most helpful as the number of accounts increases in actual practice. It is from the work sheet that financial statements are prepared.

FISCAL PERIODS

Financial accounting is concerned with the recognition of revenue when it is earned or realized during a certain period of time and it is also concerned with authorized expenditures made during the same period of time. To avoid an operating deficit, revenues must be provided for a certain period of time in order to meet authorized expenditures during that period. The period of time is referred to as a "fiscal period." A fiscal period can be a calendar year or any twelve-month period ending on the last day of a month other than December. A twelve-month period ending on December 31 is referred to as a calendar year. Once a fiscal year is established, meaningful comparisons between fiscal periods can be made only if the same period of time is used.

ADJUSTING ENTRIES

When a trial balance is prepared at the end of the accounting period, many of the amounts are acceptable for presentation in the financial statements, assuming that no errors have been made in recording the entries and posting them to the accounts. However, certain financial transactions may have taken place in the operation of the school system that have not been recognized and recorded. For example: (a) revenue may have been earned which has not been recognized, collected or recorded; (b) expenditures may have been made which have not been paid, recognized or recorded; (c) prepaid expenses may have expired or may have been used which have not been recognized and recorded; (d) deferred revenue may have been earned but not recognized or recorded; (e) items may have been recorded as revenue a part of which may not have been earned, recognized or recorded; and (f) items may have been recorded as expenditures, a part of which may remain an asset at the end of the fiscal period.

Adjusting entries may be required at the end of the fiscal period to record these internal transactions not only to reflect asset, liability and fund equity account balances correctly, but also to reflect more realistically the correct amount of revenue and expenditures for the period. The financial position of the fund, the results of operation of the fund, and the changes in fund equity could be misleading without recognition of the effect of these kinds of financial transactions.

ILLUSTRATIONS OF ADJUSTING ENTRIES

The adjusting entries in the following would be recorded in an adjustments column of a worksheet. The worksheet is not a formal part of the books of account but it is a device that is useful in the process of preparing financial statements. Therefore, adjusting entries made on the worksheet must be recorded in the fund's general journal and posted to the general ledger. Assume that the trial balance for the general fund of New Hope School System for the year ended December 31, 19--, is as follows:

NEW HOPE SCHOOL SYSTEM
General Fund Work Sheet
For year ended December 31, 19--

	Trial Balance		Adjustments		Adjusted Trial Balance		Statement of Revenues and Expenditures		Balance Sheet	
Cash in bank	4,500									
Certificates of deposit	3,000									
Taxes receivable, current	22,000									
Taxes receivable, delinquent	5,000									
Loans to other funds	2,000									
Prepaid insurance	1,000									
Notes payable—bank		1,000								
Interest payable		40								
Deferred revenue—property taxes		6,000								
Fund equity		4,000								
Revenue from property taxes		100,000								
Revenue from interest		1,000								
Expenditures: Teaching supplies	74,540									
	112,040	112,040								

A. Accrued income or revenue (and assets). Income or revenue may have been earned which has not been recognized, collected, or recorded at the end of the fiscal period. For example, interest earned on delinquent taxes and/or interest earned on investments such as certificates of deposit may not have been

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recorded before the trial balance was prepared. Although the amounts in the illustrations are not taken from actual transactions of a school system, in practice they could be material in amount and adjusting entries would be necessary to record the fact that an asset and/or assets existed. If not recorded, income or revenue would be materially understated and the financial statements could be misleading.

Assume that in the trial balance the certificates of deposit of $3,000 bear interest at the rate of 12% per year and that no interest has been recorded since the investment was made on July 1, 19--, the current year. Interest of $180 has been earned but it has not been collected or recorded. The adjusting entry would be as follows:

19--			
Dec. 31	Interest receivable	180	
	Revenue from interest		180
	To record interest earned for 6 months at 12% on $3,000 investment in certificates of deposit.		

An interest receivable account was not included in the trial balance and the account title would be shown below the trial balance's account titles and totals.

B. Accrued expenses, expenditures and liabilities. Expenses may have been incurred at the end of the fiscal period which have not been paid, recognized, or recorded when the trial balance was prepared. This, too, could be a significant amount and an adjusting entry would be necessary to record the fact that a liability existed at December 31, 19--. Failure to record expenditures and liabilities, if material in amount, could conceal a fund deficit.

Assume that an additional interest expense or expenditure of $60 has accrued on the note payable to the bank. The adjusting entry would be recorded as follows:

31	Expenditures: Interest expense	60	
	Interest payable		60
	To record interest expense that has accrued but has not been paid or recorded.		

As an expenditure account for interest expense was not in the trial balance, the account was listed below the trial balance account titles.

C. Prepaid expenses. When insurance premiums were paid, an asset account may have been debited such as "Prepaid insurance" or "Unexpired insurance". A portion of the prepaid insurance may have expired by the end of the fiscal period. That portion which has expired is an expense and, as a result, the asset would be overstated if no adjusting entry is made.

Assume that six months of the one-year insurance premiums included in the prepaid insurance account have expired at December 31, 19--. The adjusting entry would be:

31	Expenditures: Expired insurance	500	
	Prepaid insurance		500
	To record 6 month's expired insurance.		

The expenditure account for expired insurance is listed below the trial balance account titles as it was not included in the trial balance.

D. Deferred revenue. A portion of income that was recorded as deferred revenue when collected may have become available for use during the current fiscal period but may not have been recognized or recorded as of December 31, 19--.

Assume that a portion of property taxes was recorded as deferred revenue-property taxes when the assessment and levy was made earlier in the year and that the entire amount became available for use before the end of the fiscal period, December 31, 19--. The adjusting entry to recognize it as revenue of the current year would be:

31	Deferred revenue-property taxes	6,000	
	Revenue from property taxes		6,000
	To transfer deferred revenue from property taxes to revenue of the current year when it became available for expenditure.		

As both accounts necessary to record this adjustment were in the trial balance, no additional account titles were needed.

E. An alternative method of recording revenue from property taxes would be to credit the entire amount to the revenue from property taxes account when the assessment and levy was made during the year. By the end of the year, a part of that revenue may not have become available and, as a result, the revenue account would be overstated. To avoid overstating revenue and understating deferred revenue, an adjusting entry would be required.

Assume that $4,000 of the $100,000 recorded in the trial balance as revenue from property taxes was not available for expenditure during the current fiscal period but would become available during the following year. The adjusting entry would be:

31	Revenue from property taxes	4,000	
	Deferred revenue-property taxes		4,000
	To defer property taxes assessed in the current year to the following year when it will become available.		

F. Items may have been recorded as expenditures when they were acquired; however, a significant part of it may not have been used, consumed, or may have expired during the current fiscal period. The portion that remains on hand or in inventory would be an asset and should be recognized while the balance of the expenditure account would recognize only that part which has expired or been used, or consumed during the current fiscal period.

Assume that $16,000 of teaching supplies which was included in the account, expenditures: teaching supplies, in the trial balance remains on hand at December 31, 19--. The adjusting entry would be:

31	Teaching supplies on hand	16,000	
	Expenditures: Teaching supplies		16,000
	To record December 31, 19--, inventory of teaching supplies as an asset.		

These adjustments appear in the worksheet's adjustments column as follows:

NEW HOPE SCHOOL SYSTEM
General Fund Work Sheet
For year ended December 31, 19--

	Trial Balance		Adjustments		Adjusted Trial Balance		Statement of Revenues and Expenditures		Balance Sheet	
Cash in bank	4,500									
Certificates of deposit	3,000									
Taxes receivable, current	22,000									
Taxes receivable, delinquent	5,000									
Loans to other funds	2,000									
Prepaid insurance	1,000			500C						
Notes payable—bank		1,000								
Interest payable		40		60B						
Deferred revenue—property taxes		6,000	D 6,000	4,000E						
Fund equity		4,000								
Revenue from property taxes		100,000	E 4,000	6,000D						
Revenue from interest		1,000		180A						
Expenditures: Teaching supplies	74,540			16,000F						
	112,040	112,040								
Interest receivable			A 100							
Expenditures: Interest expense			B 60							
Expenditures: Expired insurance			C 500							
Teaching supplies on hand			F 16,000							
			26,740	26,740						

Letters in the adjustments column serve as the basis for adjusting journal entries illustrated.

A Records accrued interest income.
B Records accrued interest expense.
C Records the adjustment to prepaid expense, an asset, prepaid insurance, recognizing that which expired.
D Records realization of income, originally recorded as deferred.
E Records that portion of income of the current period that is deferred to the next fiscal year.
F Records ending inventory of teaching supplies, an asset, which was originally recorded as an expenditure.

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The adjusted trial balance would be completed by extending the amounts in the trial balance, as adjusted in the adjustments column, to the adjusted trial balance columns as follow:

NEW HOPE SCHOOL SYSTEM
General Fund Work Sheet
For year ended December 31, 19--

	Trial Balance		Adjustments		Adjusted Trial Balance		Statement of Revenues and Expenditures		Balance Sheet	
Cash in bank	4,500				4,500					
Certificates of deposit	3,000				3,000					
Taxes receivable, current	22,000				22,000					
Taxes receivable, delinquent	5,000				5,000					
Loans to other funds	2,000				2,000					
Prepaid insurance	1,000			500C	500					
Notes payable—bank		1,000				1,000				
Interest payable		40		60B		100				
Deferred revenue—property taxes		6,000	D 6,000	4,000E		4,000				
Fund equity		4,000				4,000				
Revenue from property taxes		100,000	E 4,000	6,000D		102,000				
Revenue from interest		1,000		180A		1,180				
Expenditures: Teaching supplies	74,540			16,000F	58,540					
	112,040	112,040								
Interest receivable			A 180		180					
Expenditures: Interest expense			B 60		60					
Expenditures: Expired insurance			C 500		500					
Teaching supplies on hand			F 16,000		16,000					
			26,740	26,740	112,280	112,280				

Letters in the adjustments column serve as the basis for adjusting journal entries illustrated:

A. Records accrued interest income.
B. Records accrued interest expense.
C. Records the adjustment to prepaid expense, an asset, prepaid insurance, recognizing that which expired.
D. Records realization of income, originally recorded as deferred.
E. Records that portion of income of the current period that is deferred to the next fiscal year.
F. Records ending inventory of teaching supplies, an asset, which was originally recorded as an expenditure.

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The worksheet would be completed by extending the amounts in the adjusted trial balance to the appropriate column of the financial statement as shown in the following:

NEW HOPE SCHOOL SYSTEM
General Fund Work Sheet
For year ended December 31, 19--

	Trial Balance		Adjustments		Adjusted Trial Balance		Statement of Revenues and Expenditures		Balance Sheet	
Cash in bank	4,500				4,500				4,500	
Certificates of deposit	3,000				3,000				3,000	
Taxes receivable, current	22,000				22,000				22,000	
Taxes receivable, delinquent	5,000				5,000				5,000	
Loans to other funds	2,000				2,000				2,000	
Prepaid insurance	1,000			500C	500				500	
Notes payable—bank		1,000				1,000				1,000
Interest payable		40		60B		100				100
Deferred revenue—property taxes		6,000	D 6,000	4,000E		4,000				4,000
Fund equity		4,000				4,000				4,000
Revenue from property taxes		100,000	E 4,000	6,000D		102,000		102,000		
Revenue from interest		1,000		180A		1,180		1,180		
Expenditures: Teaching supplies	74,540			16,000F	58,540		58,540			
	112,040	112,040								
Interest receivable			A 100		180				180	
Expenditures: Interest expense			B 60		60		60			
Expenditures: Expired insurance			C 500		500		500			
Teaching supplies on hand			F 16,000		16,000				16,000	
			26,740	26,740	112,280	112,280	59,100	103,180	53,180	9,100
							44,080			44,080
Excess Revenue over Expenditures							101,180	103,180	53,180	53,180

Letters in the adjustments column serve as the basis for adjusting journal entries illustrated.

- A Records accrued interest income.
- B Records accrued interest expense.
- C Records the adjustment to prepaid expense, an asset, prepaid insurance, recognizing that which expired.
- D Records realization of income, originally recorded as deferred.
- E Records that portion of income of the current period that is deferred to the next fiscal year.
- F Records ending inventory of teaching supplies, an asset, which was originally recorded as an expenditure.

NEED FOR CLOSING THE BOOKS AT THE END OF THE FISCAL PERIOD

Illustrations have shown how transactions of a general fund are analyzed, how they are recorded in the general journal, how they are posted to the accounts in the general ledger, how balances of the accounts are computed, how the work sheet is prepared, and how the financial statements are prepared. A question now arises: What happens to the general fund accounts at the end of the accounting period?

Through an accounting procedure known as "closing the books," the general fund's financial transactions are separated into fiscal periods. In order that the results of the fund's operation can be determined at the end of the fiscal period, it is necessary that all revenues and expenditure accounts be summarized.

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The summarization is accomplished through the use of a series of general journal entries which transfer the balances of each revenue and expenditure account to a "Revenue and Expenditure Summary" account at the end of each fiscal period. The entries are referred to as "closing entries". After closing entries are recorded and posted, each revenue and expenditure account is in balance and the account is said to be "closed". As all revenue and expenditure accounts are closed at the end of the accounting period, they are referred to as "temporary accounts." The accounts to be closed are in the statement of revenues and expenditures columns of the worksheet and these columns may be used as the basis for recording closing entries in the general journal.

Closing revenue and expenditure accounts through use of the "Revenue and Expenditure Summary" account in financial accounting for school systems makes accounting procedures for school systems consistent with accounting procedures taught in high school bookkeeping classes and with accounting courses taught in schools of business in colleges and universities throughout the United States and Canada.

ILLUSTRATION OF CLOSING ENTRIES

For purposes of illustration, assume that the revenue and expenditures accounts appear at the end of the fiscal period as follows:

REVENUE FROM TAX LEVY PAGE 7

					19--				
					Jan.	2		1	30,000

REVENUE FROM INTEREST AND PENALTIES PAGE 8

					19--				
					Jan.	8		2	500

SALARIES EXPENDITURES PAGE 9

19--									
Jan.	4		1	5,000					
	9	10,000	2	5,000					
				10,000					

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Closing entries in the general journal which transfer the balances of the revenue and expenditure accounts to the revenue and expenditure summary account appear as follows:

NEW SCHOOL DISTRICT
GENERAL FUND
GENERAL JOURNAL
PAGE 3

19--					
Jan.	31	Revenue from tax levy	7	30,000	
		Revenue and expenditure summary	10		30,000
		To close revenue from tax levy account			
	31	Revenue from interest and penalties	8	500	
		Revenue and expenditure summary	10		500
		To close revenue from interest and penalties			
		account			
	31	Revenue and expenditure summary	10	10,000	
		Salaries expenditure	9		10,000
		To close salaries expenditure account			

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EFFECT OF CLOSING ENTRIES ON THE LEDGER ACCOUNTS

When the closing entries are posted to the ledger accounts, they will appear as follows:

REVENUE FROM TAX LEVY PAGE 7

19--					19--				
Jan.	31		3	30,000	Jan.	2		1	30,000

REVENUE FROM INTEREST AND PENALTIES PAGE 8

19--					19--				
Jan.	31		3	500	Jan.	8		2	500

SALARIES EXPENDITURES PAGE 9

19--					19--				
Jan.	4		1	5,000	Jan.	31		3	10,000
	9		2	5,000					
				10,000					10,000

REVENUE AND EXPENDITURE SUMMARY PAGE 10

19--					19--				
Jan.	31		3	10,000	Jan.	31		3	30,000
						31		3	500

In addition to posting the closing entries to the ledger accounts, it is necessary to rule each of the temporary accounts as shown. Because each of the temporary accounts is in balance, the ruling indicates that it is closed at the end of the fiscal period. A similar method of ruling these accounts should be adopted and followed each year. This procedure separates revenue and expenditure transactions of one year from the other.

At this point, the revenue and expenditure summary account reflects the balances of all revenue accounts and expenditure accounts at the end of the fiscal period. This characteristic of the revenue and expenditure summary account illustrates why it is referred to as a "summarizing account" or as a "closing account". All temporary accounts are closed by transferring each of the revenue and expenditure accounts' balances to the summary account.

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In this illustration, the balance of the revenue and expenditure summary account represents the excess of the revenue over expenditures for the fiscal period because the credits (revenue) exceed the debits (expenditures).

However, in those cases where debits exceed credits in the revenue and expenditure summary, expenditures then would exceed revenues and a current operating deficit would result. In either case, however, it is necessary to close the revenue and expenditure summary account by transferring its balance to the fund equity account. The general journal entry necessary to close the revenue and expenditure summary account into the fund equity account is shown in the following:

	31	Revenue and expenditure summary	10	20,500	
		Fund equity	6		20,500
		To close the revenue and expenditure summary			
		account			

When the entry closing the revenue and expenditure summary account is posted, the revenue and expenditure summary account and the fund equity account will appear as follows: (Notice how each account is ruled.)

REVENUE AND EXPENDITURE SUMMARY PAGE 10

19--					19--				
Jan.	31		3	10,000	Jan.	31		3	30,000
	31		3	20,500		31		3	500
				30,500					30,500

FUND EQUITY PAGE 6

19—					19—				
Jan.	31	Balance	✓	30,500	Jan.	1		1	10,000
						31		3	20,500
				30,500					30,500
					Feb.	1	Balance	✓	30,500

RULING THE BALANCE SHEET ACCOUNTS

At the end of each fiscal period, each balance sheet account is balanced and ruled and the balance is carried forward as the beginning account balance for the next fiscal period, thus eliminating the possibility of confusing transactions of one fiscal period with the transactions of another fiscal period. The process used in ruling balance sheet accounts is as follows:

1. The balance of the account is computed by taking the difference between the total debits and the total credits.
2. The amount of the balance is entered, without general journal entry, on the account's debit or credit side, whichever is necessary to make the

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debits and credits equal. Opposite the amount entered, the word "balance" is written in the explanation column of the account. A check mark is entered in the posting reference column to indicate that the amount is a computed or balancing figure rather than a figure arising from a journal entry.

3. The last day of the fiscal period is entered in the date column.
4. A single line is drawn across the amount column. The totals are entered below this line on each side of the account.
5. A double line is drawn across all columns of the account with the exception of the explanation columns.
6. Immediately below the double lines, the first date of the new fiscal period is entered, the word "balance" is written in the explanation column on the appropriate side, and the amount of the balance is entered.
7. A check mark is entered in the posting reference column to indicate that the amount is a balancing figure and not an amount arising from a journal entry.

The purpose of the individual balance sheet account has not been disturbed but a single figure at the beginning of each fiscal period is substituted for an array of individual debits and credits previously entered.

ILLUSTRATION OF BALANCING AND RULING A BALANCE SHEET ACCOUNT

An illustration of a balance sheet account properly balanced and ruled is made by continuing the use of the illustrated transactions of the general fund. The cash in bank account, as balanced and ruled and with the balance carried forward to the new fiscal period, is illustrated.

CASH IN BANK PAGE 1

19--					19--				
Jan.	1		1	1,000	Jan.	4		1	5,000
	3		1	5,000		6		1	4,000
	5		1	8,000		7		2	2,000
	8		2	6,500		9		2	5,000
						31	Balance	✓	4,500
				20,500					20,500
Feb.	1	Balance	✓	4,500					

Observe that a diagonal line is drawn in the explanation column on the debit side. The purpose of this diagonal is to indicate that the entry lines through which it is drawn were not used during the fiscal period; it prevents the line's being used to record unauthorized and unsupported amounts.

It is possible that an entirely new general ledger be used each fiscal period. If this is the case, the balance of the account will be entered as the beginning balance of the ledger account at the date the new ledger is opened. It is important to note the distinction between ruling balance sheet accounts and ruling revenue and expenditure accounts.

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RULING REVENUE AND EXPENDITURE ACCOUNTS

Illustrations of proper ruling of revenue and expenditure accounts have been presented. The revenue and expenditure accounts illustrated were: revenue from tax levy, revenue from interest and penalties, salaries expenditures, and revenue and expenditure summary accounts. Observe that after having posted closing entries to each of these accounts, the debits and credits in each were equal. In temporary accounts such as the revenue, expenditure, and summarizing accounts, no balances remain to be carried forward to the subsequent fiscal period. Each account's debits and credits are totaled and the totals are double ruled as illustrated. The totals of the debits and credits of each account appear on the same horizontal line regardless of the number of individual entries in the account. (If the account has only one entry on each side, it is not necessary to total columns. In such a case the double ruling is placed immediately below the amounts.) A double ruling is made across all columns with the exception of the explanation column on each side of the account. It is important to emphasize that these procedures are applicable to revenue, expenditure, and summarizing accounts only.

THE POST-CLOSING TRIAL BALANCE

Temporary accounts have no balances and are ruled after posting the closing entries. However, all balance sheet accounts may have balances. After each asset, liability, and fund equity account has been ruled and the balance brought forward, a postclosing trial balance is prepared. The post-closing trial balance is taken directly from the general ledger. Its purpose is to prove that the general ledger is in balance at the beginning of the new fiscal period. In the illustrations presented, the post-closing trial balance appears as follows:

NEW SCHOOL DISTRICT
GENERAL FUND
POST-CLOSING TRIAL BALANCE
FEBRUARY 1, 19--

Cash in bank	$ 4,500	
Taxes receivable	22,000	
Temporary investment	3,000	
Loan to other fund - library	2,000	
Loan from bank		$ 1,000
Fund equity		30,500
Total	$31,500	$31,500

When the post-closing trial balance has been prepared, the accounting cycle has been completed. The general ledger of the fund is in balance and is ready to receive postings from the general journal which will record transactions for the new fiscal period.

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THE ACCOUNTING CYCLE

A complete accounting cycle has been illustrated. These formalized procedures are universally followed, with minor variations, in actual practice. The following is a summary of the steps in the accounting cycle.

1. Journalize transactions. Each transaction is analyzed in terms of debits and credits and recorded in the general journal.
2. Post the transactions. Amounts in each transaction recorded in the general journal are, through the posting process, transferred to the affected accounts in the general ledger.
3. Prepare a trial balance. After transactions for the fiscal period have been posted to the general ledger, a trial balance of the fund's accounts is taken to prove equality of debits and credits. The trial balance composes the first two columns of the work sheet.
4. Complete the work sheet. A work sheet is completed by recording adjusting entries in the adjustments columns. An adjusted trial balance is prepared in the columns provided which reflects balances of each account as nearly accurate as possible as of the work sheet date. The balances composing the adjusted trial balance are then distributed to the appropriate work sheet columns designated for the statement of revenue and expenditures and for the balance sheet.
5. Prepare financial statements. From the work sheet financial statements are prepared which show the financial position of the fund, the results of its financial operation, and the changes in fund equity.
6. Journalize adjusting entries. From the work sheet, general journal adjusting entries are recorded and posted, causing the fund's general ledger accounts to not only reflect asset, liability and fund equity account balances correctly but also to reflect more realistically the correct amount of revenue and expenditures for the period.
7. Journalize closing entries. Closing entries are made which transfer balances of all revenue and expenditure accounts to a summarizing account, the revenue and expenditure summary. The balance of the summary account represents either an excess of revenues over expenditures or an excess of expenditures over revenues. The balance of the revenue and expenditure summary account is transferred to the fund equity account by a closing entry.
8. Post the closing entries. When closing entries are posted to the revenue and expenditure accounts and to the summarizing account, all of these temporary accounts will be in balance.
9. Balance, rule, and bring forward balances of balance sheet accounts. Each asset, liability, and fund equity account having a balance is balanced, ruled, and the balance carried forward to the subsequent fiscal period.
10. Rule temporary accounts. After posting closing entries, each temporary account is in balance, having equal debits and credits. As no balances remain, the account is ruled.

11. Prepare post-closing trial balance. After balance sheet account balances have been carried forward to the beginning of the subsequent fiscal period, a post-closing trial balance is prepared to prove equality of debits and credits before transactions of the subsequent fiscal period are recorded.

SPECIAL JOURNALS

All financial transactions of a fund used in financial management of a school system can be recorded in the fund's general journal. When computers are used, the input technique frequently requires analysis of each financial transaction as if it were in general journal form. In other mechanical and manual systems of accounting, special journals can be developed which have certain advantages over the general journal, yet they accomplish identical purposes. The general journal process of recording and posting financial transactions is long.

Special journals become useful when financial transactions of a similar kind occur frequently. For instance, upon receipt of cash, the cash account is always debited. As a result, a cash receipts journal can be designed to record all cash receipts of a fund.

The cash receipts journal records each cash receipt in a column, the total of which can be posted periodically to the debit of the cash account. This recording technique reduces the amount of work necessary for posting.

Another special journal may record all cash payments while recording each check issued in numerical order. This special journal is frequently referred to as a cash payments journal or as a check register.

Among other special journals is one designed to record all current liabilities through the use of a voucher register. It may be referred to as a "Voucher System". Each time a debt is incurred which is to be paid by check within a short period of time, a voucher is prepared and recorded in a separate column, the total of which can be posted periodically to the credit of the accounts payable account or vouchers payable account.

If transactions which are similar in nature occur infrequently, there would be no advantage of having a special journal for that purpose. The general journal continues to be used to record those transactions that are not recorded in a special journal. The general journal continues to be the book used for recording adjusting and closing entries at the end of each fiscal period.

CASH RECEIPTS JOURNAL

An illustration of a cash receipts journal is presented in which the following transactions are recorded:

July
1. Collected taxes receivable of 19-1 in the amount of $100 from Abraham Adams.
2. Collected $40,000 from the federal government previously recorded as revenue from Title I, E.S.E.A.

3. Collected the note receivable from the school food services fund due today in the amount of $6,500 plus interest of $130.
4. Collected summer school tuition from students, $3,400.
5. Collected taxes receivable of 19-0 in the amount of $150 plus interest and penalties on taxes in the amount of $7.50 from Albert Bell.
6. Collected the balance of the school district's claim against the state for transportation for 19-0 in the amount of $16,800.
7. Collected taxes receivable of 19-1 in the amount of $75 from Carl Cove.
8. Collected taxes receivable of 19-0 in the amount of $130 plus interest and penalties on taxes in the amount of $6.50 from Douglas Day.

NEW SCHOOL DISTRICT
GENERAL FUND
CASH RECEIPTS JOURNAL

PAGE 23

DATE		ACCOUNT TITLE	EXPLANATION	P.R.	TAXES RECEIVABLE 19-0 CR.	TAXES RECEIVABLE 19-1 CR.	TUITION INCOME CR.	DUE FROM STATE CR.	DUE FROM FEDERAL GOV'T CR.	CASH DR.	GENERAL LEDGER ACCOUNT TITLE	P.R.	AMOUNT DR.	AMOUNT CR.
19--														
July	1	Abraham Adams	Receipt no. 10176			100.00				100.00				
	2	Title I, E.S.E.A.	19-- Allotment						40,000.00	40,000.00				
	3	Note receivable	From school food							6,630.00	Note receivable			6,500.00
			service fund								Interest income			130.00
	4	Summer School												
		Tuition	Cash collected				3,400.00			3,400.00				
	5	Albert Bell	Receipt no. 10177		150.00					157.50	Interest and penalties			
											on taxes			7.50
	6	Transportation	Claim collected					16,800.00		16,800.00				
	7	Carl Cove	Receipt no. 10178			75.00				75.00				
	8	Douglas Day	Receipt no. 10179		130.00					136.50	Interest and penalties			
											on taxes			6.50
					280.00	175.00	3,400.00	16,800.00	40,000.00	67,299.00				6,644.00

Proof of debits and credits:

debits	credits
67,299	280
	175
	3,400
	16,800
	40,000
	6,500
	130
	7.50
	6.50
67,299	67,299.00

Prior to posting from a special journal, the totals of the columns should be calculated to determine the equality of debits and credits, as illustrated at the left.

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information in it is posted to the general ledger. Observe the posting references in parenthesis under the columnar totals. In the general ledger illustration, observe that the accounts reflect the fact that the information came from "Cr 23", page 23 of the cash receipts journal.

GENERAL LEDGER

Cash			101
Cr 23	67,299		

Taxes receivable, 19-0			110
		Cr 23	280

Taxes receivable, 19-1			114
		Cr 23	175

Notes receivable			123
		Cr 23	6,500

Due from state government			140
		Cr 23	16,800

Due from federal government			141
		Cr 23	40,000

Revenue from penalties and interest on taxes			1190
		Cr 23	7.50
		Cr 23	6.50

Revenue from tuition			1311
		Cr 23	3,400

Revenue from interest on investments			1510
		Cr 23	130

NEW SCHOOL DISTRICT
GENERAL FUND
CASH RECEIPTS JOURNAL

DATE		ACCOUNT TITLE	EXPLANATION	P.R.	TAXES RECEIVABLE 19-0 CR.	TAXES RECEIVABLE 19-1 CR.	TUITION INCOME CR.	DUE FROM STATE CR.	DUE FROM FEDERAL GOV'T CR.	CASH DR.	GENERAL LEDGER ACCOUNT TITLE	P.R.	AMOUNT DR.	AMOUNT CR.
19--														
July	1	Abraham Adams	Receipt no. 10176			100.00				100.00				
	2	Title I, E.S.E.A.	19-- Allotment						40,000.00	40,000.00				
	3	Note receivable	From school food							6,630.00	Note receivable	123		6,500.00
			service fund								Interest income	1510		130.00
	4	Summer School												
		Tuition	Cash collected				3,400.00			3,400.00				
	5	Albert Bell	Receipt no. 10177		150.00					157.50	Interest and penalties			
											on taxes	1190		7.50
	6	Transportation	Claim collected					16,800.00		16,800.00				
	7	Carl Cove	Receipt no. 10178			75.00				75.00				
	8	Douglas Day	Receipt no. 10179		130.00					136.50	Intetest and penalties			
											on taxes	1190		6.50
					280.00	175.00	3,400.00	16,800.00	40,000.00	67,299.00				6,644.00
					(110)	(114)	(1311)	(140)	(141)	(101)			--	(✓)

Note that the posting references for columnar totals are indicated in parentheses immediately below the total.

Amounts that appear in the general ledger columns have to be posted individually. When posted to the appropriate general ledger account, the account number is inserted in the posting reference column. As a result, the totals in the debit and credit columns of the general ledger columns will not be posted and a check mark is placed in parentheses under the total to indicate that it is not posted.

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The accounts in the general ledger would be in balance as a result of posting from the cash receipts journal as is illustrated by a trial balance of the accounts as follows:

Cash	$67,299	
Taxes receivable, 19-0		$ 280
Taxes receivable, 19-1		175
Notes receivable		6,500
Due from state government		16,800
Due from federal government		40,000
Revenue from penalties and interest on taxes		14
Revenue from tuition		3,400
Revenue from interest on investments		130
Total	$67,299	$67,299

SUBSIDIARY LEDGERS

A large number of accounts is needed to record the financial transactions of a fund. In some cases the number is so large that it would be impractical to keep all of the accounts in the general ledger of the fund. For example, if the general fund of the school system serves as the collector of property taxes, each taxpayer against whom a tax is assessed and levied must have an individual account to identify the taxpayer, his address, the property taxed, its assessed valuation, the rate of tax, the amount, the date assessed and levied, additional charges for interest and penalties for permitting the tax to become delinquent, dates and amounts of payment, etc. As a result, the school system would need several thousand accounts, each classified as taxes receivable.

If all accounts with taxpayers were kept in the general ledger, it would be difficult to maintain and keep in order. And it would be difficult for more than one person to work with the general ledger. Furthermore, a trial balance listing each individual taxpayer would be unnecessarily long. As a result, an effective practice has developed to take accounts, such as individual taxpayer accounts, out of the general ledger and place them in a separate, special ledger referred to as a subsidiary ledger. In lieu of the accounts removed from the general ledger, one account is substituted in the general ledger which is referred to as a controlling account. The controlling account in the general ledger must show in total what the subsidiary ledger shows in detail. As a result, the general ledger will remain a self-balancing group of accounts.

The trial balance would show only one balance for each year's taxes receivable remaining uncollected. The balance sheet would be supported by a schedule of taxes receivable. It would be taken from the subsidiary ledger by listing names and balances of each account remaining uncollected. The total of the schedule of taxes receivable for a specific year must equal the balance appearing in the controlling account in the general ledger and on the balance sheet.

The following illustration of a cash receipts journal shows how individual transactions with each taxpayer are recorded in the general ledger's controlling accounts and in the subsidiary taxes receivable ledgers. Two taxes receivable controlling accounts are illustrated: one is for the year 19-0, and the other is for the year 19-1. Each controlling account requires a subsidiary ledger; therefore, two subsidiary ledgers are illustrated.

THE GENERAL LEDGER

Taxes Receivable, 19-0

CR23 280	

Taxes Receivable, 19-1

CR25 175	

Observe that the controlling accounts in the general ledger show the total of the amounts shown in detail in the subsidiary ledger accounts below.

SUBSIDIARY TAXES RECEIVABLE LEDGER

Albert Bella

CR23 150	

Abraham Adam

CR25 100	

Douglas Daye

CR23 130	

Charles Covenart

CR25 75	

City of A
School System
Schedule of Accounts Receivable
(Date)

Albert Bella	$150
Douglas Day	130
Total, General Ledger Controlling Account	$280

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NEW SCHOOL DISTRICT
GENERAL FUND
CASH RECEIPT JOURNAL

PAGE 23

DATE		ACCOUNT TITLE	EXPLANATION	P.R.	TAXES RECEIVABLE 19-0 CR.	TAXES RECEIVABLE 19-1 CR.	TUITION INCOME CR.	DUE FROM STATE CR.	DUE FROM FEDERAL GOV'T. CR.	CASH DR.	GENERAL LEDGER ACCOUNT TITLE	P.R.	AMOUNT DR.	AMOUNT CR.
19--														
July	1	Abraham Adams	Receipt no. 10176	1-1		100.00				100.00				
	2	Title I, E.S.E.A.	19-- Allotment						40,000.00	40,000.00				
	3	Note receivable	From school food							6,630.00	Note receivable			6,500.00
			service fund								Interest income			130.00
	4	Summer School												
		Tuition	Cash collected				3,400.00			3,400.00				
	5	Albert Bell	Receipt no. 10177	0-1	150.00					157.50	Interest and penalties			
											on taxes			7.50
	6	Transportation	Claim collected					16,800.00		16,800.00				
	7	Carl Cove	Receipt no. 10178	1-2		75.00				75.00				
	8	Douglas Day	Receipt no. 10179	0-2	130.00					136.50	Interest and penalties			
											on taxes			6.50
					280.00	175.00	3,400.00	16,800.00	40,000.00	67,299.00				6,644.00
					(110)	(114)								

Observe that the posting references for the total in each column refer to the account number in the general ledger to which the total was posted.

The numbers in the posting reference column indicate the individual account number in the appropriate subsidiary ledger to which individual amounts are posted.

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THE VOUCHER SYSTEM—THE VOUCHER REGISTER

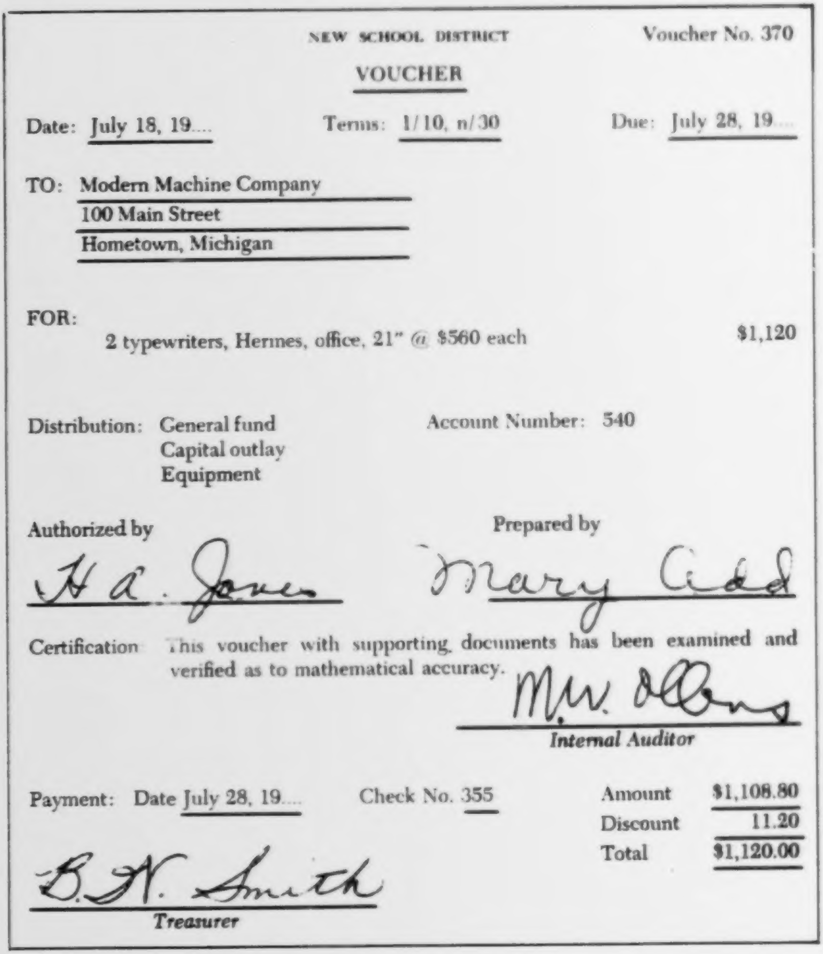
One of the most effective ways to provide internal financial control is to require that cash receipts be deposited intact daily. This practice discourages accumulation of cash over a period of time that could become attractive for theft and provides a way of tracing daily cash receipts to duplicate deposit tickets and to the bank statement. By depositing all daily cash receipts intact, cash payments can be made by check only. Coordination of business practices with accounting records results in more effective business control and cash management.

One of the most effective methods of internal financial control is created to coordinate accounting records and account payments and is described as a voucher system. Not only does the voucher system accumulate all supporting business papers needed to provide adequate evidence of the financial transaction but it also provides a procedure that encourages the school system to take advantage of all available purchase discounts. Failure to take advantage of such discounts deprives the school system of significant financial resources.

The voucher system requires written authorization for each cash payment. This authorization is given usually in the form of a voucher which is an internally created document prepared from attached supporting documents such as:

The purchase order
The purchase invoice
The receiving report

Each voucher is pre-numbered in order that all vouchers may be accounted for. The voucher form requires that every bill or invoice received be approved prior to payment. It is approved as to: quantities, prices, specifications prescribed, mathematical accuracy of extensions and footings, terms of payment, actual receipt of goods or services, and distribution of the amount to the proper accounts. An illustration of a voucher is as follows:



NEW SCHOOL DISTRICT

Voucher No. 370

VOUCHER

Date: July 18, 19....
Terms: 1/10, n/30
Due: July 28, 19....

TO: Modern Machine Company
100 Main Street
Hometown, Michigan

FOR:

2 typewriters, Hermes, office, 21" @ $560 each	$1,120

Distribution: General fund
Capital outlay
Equipment

Account Number: 540

Authorized by
H. A. Jones

Prepared by
Mary Ladd

Certification This voucher with supporting documents has been examined and verified as to mathematical accuracy.

Internal Auditor

Payment: Date July 28, 19....
Check No. 355

Amount	$1,108.80
Discount	11.20
Total	$1,120.00

B. N. Smith
Treasurer

To take advantage of maximum purchase discounts that are available to a school system, vouchers are prepared in three copies. One copy of the unpaid voucher is filed alphabetically by vendor name, the second copy is filed under the date when payment is to be made, and the third is filed by voucher number. When filed according to date due to take advantage of maximum purchase discounts, the unpaid voucher file automatically brings the attention of management to the vouchers that are to be paid on a particular date. Cash planning is possible by reference to the amount of cash that should be on hand each day to pay vouchers becoming due on that date. When filed alphabetically by name of the vendor, quick reference to the vendor's file or account is possible. When filed by voucher number, a quick reference can be made to it and assurance can be provided that all vouchers are accounted for, that none have been lost. In this case, the unpaid voucher file replaces the accounts payable subsidiary ledger and the general ledger account frequently is changed from accounts payable to vouchers payable.

The following is an illustration of a voucher register in which each unpaid voucher is recorded by number. Transactions recorded in the illustration are: (Voucher columnar headings uses an object classification)

July
15. Issued voucher no. 367 for payment of salaries and employee benefits computed by the central payroll department: salaries, $29,423; employee benefits, $7,449.
16. Issued voucher no. 368 for payment of a 120-day, 6% interest bearing tax anticipation note payable, face amount $100,000, interest expense $2,000, payable to City National Bank.
17. Issued voucher no. 369 payable to City Supply Co. for teaching supplies. Invoice amounted to $3,680, terms 2/10, n/30.
18. Issued voucher no. 370 payable to Modern Machine Co. for two (2) Hermes offices typewriters. Invoice price was $1,120, terms 1/10, n/30.
19. Issued voucher no. 371 payable to Farr Travel Agency for airline tickets, $76.
20. Issued voucher no. 372 to Fargo Oil Co. for heating oil. Invoice price $876.

NEW SCHOOL DISTRICT
GENERAL FUND
VOUCHER REGISTER

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DATE		VOUCHER NUMBER	NAME	FOR	TERMS	HOW AND WHEN PAID		P.R.	VOUCHERS PAYABLE CR.	SALARIES DR.	EMPLOYEE BENEFITS DR.	PURCHASED SERVICES DR.	SUPPLIES AND MATERIALS DR.	CAPITAL OUTLAY DR.	GENERAL LEDGER ACCOUNT TITLE	P.R.	AMOUNT DR.	AMOUNT CR.
						DATE	CHECK #											
19--																		
July	15	367	Payroll Fund	Salaries 7/15	Cash	7/15	352		36,872.00	29,423.00	7,449.00							
	16	368	City National Bank	Principal and	Cash	7/16	353		102,000.00						Tax anticipation note			
				interest											payable	407	100,000.00	
															Interest expense	620	2,000.00	
	17	369	City Supply Co.	Supplies	2/10-n/30	7/28	356	410	3,680.00				3,680.00					
	18	370	Modern Machine Co.	Typewriters	1/10-n/30	7/28	355	540	1,120.00					1,120.00				
	19	371	Farr Travel Agency	Airline tickets	Cash	7/19	354	332	76.00			76.00						
	20	372	Fargo Oil Co.	Heating oil	2/10-n/30	7/30	357	321	876.00			876.00						
									144,624.00	29,423.00	7,449.00	952.00	3,680.00	1,120.00			102,000.00	
									(401)	(110)	(200)	(✓)	(✓)	(✓)			(✓)	

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When the date of payment arrives, all vouchers to be paid on that date are withdrawn from the unpaid voucher file. Corresponding copies of the unpaid vouchers are withdrawn from the alphabetical files by vendor, and from the numerical unpaid voucher file. The unpaid vouchers are presented to the treasurer for payment. The following transactions record checks issued in payment of vouchers:

July
15. Issued check no. 352 to payroll fund in payment of voucher no. 367.
16. Issued check no. 353 to City National Bank in payment of voucher no. 368.
19. Issued check no. 354 to Farr Travel Agency in payment of voucher no. 371.
28. Issued check no. 355 to Modern Machine Co., taking a 1% discount which reduces the amount of capital outlay, in payment of voucher no. 370.
28. Issued check no. 356 to City Supply Co., taking a 2% purchase discount, in payment of voucher no. 369.
30. Issued check no. 357 to Fargo Oil Co., taking a 2% purchase discount, in payment of voucher no. 372.

When each check is issued, each check number and its date of payment are entered in the "how" and "when paid" columns of the voucher register. All entries in the voucher register which contain blank spaces in the "how" and "when paid" columns remain unpaid. A total of unpaid vouchers should agree in amount with the total of the vouchers in one of the unpaid voucher files. When both the voucher register and check register are posted to the vouchers payable account in the general ledger, the balance of unpaid vouchers should be in agreement with the total of unpaid vouchers remaining in one of the unpaid voucher files.

NEW SCHOOL DISTRICT
GENERAL FUND
CASH PAYMENTS JOURNAL – CHECK REGISTER

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DATE		NAME OF PAYEE	CHECK NO.	VOUCHER NO.	VOUCHERS PAYABLE DR.	PURCHASES DISCOUNT CR.	CITY NATIONAL BANK CR.	GENERAL LEDGER ACCOUNT TITLE		AMOUNT DR.	AMOUNT CR.
19--											
July	15	Payroll Fund	352	367	36,872.00		36,872.00				
	16	City National Bank	353	368	102,000.00		102,000.00				
	19	Farr Travel Agency	354	371	76.00		76.00				
	28	Modern Machine Co.	355	370	1,120.00		1,108.80	Capital Outlay	540		11.20
	28	City Supply Co.	356	369	3,680.00	73.60	3,606.40				
	30	Fargo Oil Co.	357	372	876.00	17.52	858.48				
					144,624.00	91.12	144,521.68			–	11.20
					(401)	(1911)	(101)				(✓)

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FINANCIAL DATA PROCESSING

MANUAL SYSTEMS. In small school systems, one or more people can record all of the financial transactions manually. As the size of a school system increases, the volume of financial transactions also increases. As a result, it may be feasible to use time-saving and labor-saving devices such as special journals. In addition to cash receipts journals, cash payments journals or check registers and voucher registers that have been illustrated, special journals can be developed as insurance registers, notes receivable registers, notes payable registers and many others. Each special journal that reduces the number of times an individual amount has to be recorded tends to reduce the possibility of making errors.

Under certain circumstances, information contained in subsidiary ledgers accounts can be provided through the use of procedures and techniques other than use of the traditional ledger account form. For instance, traditional accounts payable subsidiary ledger accounts can be replaced through the use of a voucher system. Properly prepared and supported by all business papers related to a transaction, copies of the voucher are placed in a file of unpaid vouchers by alphabetical order, by name of the creditor, and by numerical order. When paid, an unpaid voucher is removed from the unpaid voucher file, marked to indicate how and when it was paid, and is filed in a paid voucher file. This technique is often called "ledger-less bookkeeping".

MECHANICAL SYSTEMS. Various kinds of bookkeeping and accounting machines have been designed to do one or more kinds of things related to an over-all accounting structure. As the number of financial transactions is increased, additional mechanical, electrical or electronic devices can add to the recording capability of the school system. People trained in accounting take financial information from properly prepared business papers and translate it into the "in-put" technique required by the machine. The machine may store information for future use, print the data in general journal form or in a form that can be used as a book of original entry, accumulate additional data, or clear the data from the machine. The machine may be capable of making multiple copies or of posting to both controlling and subsidiary ledger accounts. This type of machine has been designed to meet the needs of accounting related to taxes receivable, accounts receivable, cash receipts, cash disbursements, accounts payable, and payrolls.

ELECTRONIC DATA PROCESSING SYSTEMS —THE COMPUTER. The computer is capable of making many mathematical calculations per second without error. It follows a set of instructions which is referred to as a program. It can perform certain operations on the data stored in its memory and on additional data put into it. As a result, it is capable of doing all of the calculations related to payroll records as well as print checks in addition to many other routines required in a total financial structure of a school system.

With the phenomenal speed and storage capacity of the computer, it is just as capable of producing and storing as much wrong and meaningless information, when inaccurate programs or information are fed into it, as it is capable of producing and storing correct and meaningful information. In fact, the computer is totally incapable of doing anything until it has been instructed in detail what to do by a person. That person has to think through completely all of the procedures, alternatives, and exceptions that a computer will face in processing data and has to instruct the machine what to do at each point in the process. Therefore, the computer is far from replacing the accountant and the analytical accounting principles and procedures that are required for each financial transaction of a school system. Instead, the computer places additional demands upon both the accountant and management to analyze and use the information that this way of recording and summarizing financial information of a school system provides.

THE MICROCOMPUTER REVOLUTION

A microcomputer revolution has exploded on the school business office scene. The "micros" or desktop computers make possible decentralization of accounting duties and functions and make accounting data more useful by financial administrators at all levels of the school system. Computers can aid in the decision-making process of individual school administrators who are neither accountants nor data processing specialists. Because computers, microcomputers and other data processing machinery have the capacity to produce all of the journals and ledgers needed for interim and annual financial reports and statements as illustrated throughout this text, further computer applications are not extensively discussed.

Chapter 6

Financial Data Processing—From the Pen to the Computer

QUESTIONS

6-1. Why is it difficult to determine the full nature of each financial transaction from the ledger accounts?

6-2. How does the general journal overcome the difficulty stated in question 6-1?

6-3. By what other name is a general journal frequently called?

6-4. What two purposes are served by numbering the pages of a general journal?

6-5. Explain, in detail, how each transaction is dated in the general journal.

6-6. Explain, in detail, how each transaction is recorded in the general journal and give an example of a complete entry.

6-7. How is the possibility of inserting an unauthorized entry on a page of a general journal avoided?

6-8. What is meant by the term "posting?" What is the process of posting?

6-9. Give four steps required when posting from a general journal to an account in the general ledger.

6-10. What is the purpose of the cross-referencing process between the general journal and the general ledger?

6-11. What purposes does a worksheet serve at the end of a fiscal period?

6-12. When preparing a worksheet, why are adjusting entriesnecessary?

6-13. Give six examples where the balance of an account in the trial balance may be incorrect, other than errors in recording and posting a transaction.

6-14. From the worksheet, what two additional kinds of general journal entries are recorded and posted to the general ledger?

6-15. What is meant by the term "closing the books?" What accounts are closed at that time?

6-16. Under what circumstances does the revenue and expenditure summary reflect an operating deficit?

6-17. Under what circumstances does the general ledger reflect a fund deficit?

6-18. How is it possible to distinguish between transactions of one fiscal period and another in the general ledger?

6-19. What is the purpose of the post-closing trial balance?

6-20. Compare the appearance of balance sheet accounts withthe appearance of revenue and expenditure accounts inthe general ledger after closing entries have been posted and the accounts have been ruled. What is the difference?

CASES AND PROBLEMS

6-1. The trial balance for Malcom County Schools as of September 30, 19--, appears as follows:

MALCOM COUNTY SCHOOLS
General Fund
Trial Balance
September 30, 19--

Cash	$ 4,500	
Taxes Receivable	22,000	
Investments	3,000	
Due from township	2,000	
Due to cities		$ 1,000
Fund balance		10,000
Revenue from taxes		30,000
Revenue from penalties and interest on taxes		500
Salaries and wages	10,000	
Total	$41,500	$41,500

During the month of October, the following transactions occurred:

Oct.	1.	The school system obtained a loan of $2,000 from the City's general fund at an interest of 10%.
	3.	An ordinance was passed authorizing a tax levy which will yield the school system an additional $10,000.
	5.	Taxes of $10,000 were collected.
	10.	The school system received the $2,000 that it had loaned to a township plus $15 interest.
	15.	Salaries of $5,000 were paid.
	20.	The school system collected $10,500 of which $9,000 was from taxes and $1,500 was from interest and penalties on the taxes.
	23.	The school system's treasurer invested $5,000 in a 30 day certificate of deposit at 12%.
	31.	The loan obtained from the City on October 1 was paid in full plus interest.
	31.	Salaries of $5,000 were paid.

INSTRUCTIONS:

1. Open an account in the ledger for each item listed in the trial balance of September 30 and any additional accounts that may be needed. Be sure to number pages of the ledger.

2. Record the balance of each account as of October 1, 19--, and write the word "Balance" in the items column, placing a check mark in the posting refer ence column opposite each balance.
3. Record the transactions for October in a general journal.
4. Post to the general ledger.
5. Take a trial balance of the ledger as of October 31, 19--, on a worksheet.
6. Record adjusting entries on the worksheet to show:
   (a) Additional salaries and wages have accrued in the amount of $500.
   (b) Interest of $25 has accrued on investments.
7. Complete the adjusted trial balance, statement of revenue and expenditures, and the balance sheet on the worksheet.
8. Record adjusting and closing entries in the general journal and post them to the general ledger.
9. Rule all temporary accounts, i.e., revenue and expenditure accounts, including the revenue and expenditure summary.
10. Balance and rule the balance sheet accounts and bring the balances forward as of the beginning of the new fiscal period.
11. Prepare a post-closing trial balance.
12. Prepare a formal statement of revenue and expenditures and a balance sheet.

6-2. The fiscal period for Carroway County Schools runs from July 1 to June 30. Account balances as of January 30, 19--, are as follow:

Cash	$ 10,000	
Investments-certificates of deposit	25,000	
Due from other funds	3,000	
Teaching supplies	1,600	
Prepaid insurance	1,200	
Accounts payable		$ 2,800
Due to other funds		1,000
Fund balance		41,000
Revenue:		
from property taxes		125,000
from state sales taxes		75,000
from state aid		195,000
from state in lieu of taxes		5,000
from federal government		26,000
Expenditures:		
Rent	70,000	
Salaries and wages	150,000	
Professional services-legal	25,000	
Student transportation	50,000	
Telephone	5,000	
Printing	25,000	
Capital outlay-equipment	105,000	
	$470,800	$470,800

INSTRUCTIONS

1. Record the balances as of June 30, 19--, in "T" accounts in a general ledger and on a 10-column worksheet.
2. Complete the worksheet by including the following adjustments:
   - (a) An inventory of teaching supplies indicates that $900 remains on hand.
   - (b) Insurance in the amount of $400 has expired.
   - (c) Salaries and wages incurred but not paid or recorded at the end of the fiscal period amount to $3,000.
   - (d) Interest on investments has accrued in the amount of $250.
   - (e) Rent remaining prepaid at the end of the period is $3,500.
3. Record the necessary adjusting and closing entries in general journal form and post them to the general ledger.
4. Rule all revenue and expenditure accounts, including the revenue and expenditure summary.
5. Balance, rule, and bring account balances forward as of the beginning of the next fiscal period for all balance sheet accounts.
6. Prepare a post-closing trial balance.
7. Prepare a statement of revenue, expenditures and fund balance and a balance sheet.

6-3. Account balances in the general fund's general ledger for Santa Clara City Schools on January 31, 19--, are:

Cash	$ 5,000
Taxes receivable	25,000
Investments	8,000
Due from other funds	3,000
Due to other funds	5,000
Fund equity	19,000
Revenue from taxes	33,000
Revenue from interest and penalties on taxes	1,000
Salaries and wages expenditures	?

INSTRUCTIONS:

1. Open necessary "T" accounts and record balances in them in amounts indicated above.
2. Prepare a trial balance as of January 31, 19--.
3. Journalize and post closing entries.
4. Rule the accounts properly.
5. Prepare a post-closing trial balance.

7

REVENUE AND EXPENDITURE ACCOUNTS

Each transaction is analyzed to determine what fund accounts are affected by it. In previous illustrations, emphasis was placed upon recognizing a fund's asset and liability accounts to determine its financial position. It is equally important to emphasize a fund's revenue and expenditure accounts to determine the results of operation of the fund. Sufficient revenue must be realized from which enough cash can come to pay for the expenditures required in carrying out the school system's educational goals and objectives.

REVENUE DEFINED

Revenue increases the fund's ownership equity in its assets. Usually, revenues increase cash or other current assets which are convertible into cash without affecting the fund's liabilities. To be a revenue, the amount received must be expendable and it must not create an appropriation of fund equity to be used for a particular purpose. A revenue cannot be an expenditure reimbursement. Answers to a series of questions might provide a basis to determine whether or not an item creates revenue. These questions are:

1. Does the item result in an increase of net assets?
2. Does the item result in an increase in the expendable fund's ownership of assets?
3. Can the asset acquired be fully expended?
4. Does the item arise from a decrease in another asset in the fund?
5. Does the item increase the fund's liabilities?
6. Does the amount represent a refund of an expenditure?
7. Does the amount create an appropriation of fund equity which can be used only for a particular purpose?

If the answer to questions 1, 2, and 3 are "yes", and the answers to questions 4, 5, 6, and 7 are "no", the item would be classified properly as revenue.

CLASSIFICATION OF REVENUES

The revenue account structure of the general fund should be designed to meet the specific needs of the fund. Additional accounts should be added when needed and accounts that are not needed should be deleted from a fund's account structure. The following is selected from the 1980 publication of the National Center for Education Statistics (NCES) as typical revenue accounts of a general fund.

  - REVENUE FROM LOCAL SOURCES:
    - Taxes levied/assessed by the local education agency (LEA):
      - Ad valorem taxes
      - Sales and use taxes
      - Income taxes
      - Penalties and interest on taxes
      - Other taxes
    - Revenue from local governmental units other than LEAs:
      - Ad valorem taxes
      - Sales and use taxes
      - Income taxes
      - Penalties and interest on taxes
      - Revenue in lieu of taxes
      - Other taxes
    - Tuition:
    - Tuition from individuals
    - Tuition from other LEAs within the state
    - Tuition from other LEAs outside the state
    - Transportation fees from other sources
  - Earnings on investments:
    - Interest on investments
    - Dividends on investments
    - Gains on sale of investments
    - Earnings on investments in real property
  - Community services activities
  - Other revenue from local sources:
    - Rentals
    - Contributions and donations from private sources
    - Gain on sale of fixed assets
    - Textbook sales
    - Textbook rentals
- REVENUE FROM INTERMEDIATE SOURCES:
  - Unrestricted grants-in-aid
  - Revenue in lieu of taxes
  - Revenues for/on behalf of the LEA

REVENUE FROM STATE SOURCES:
- Unrestricted grants-in-aid
- Revenue in lieu of taxes
- Revenue for/on behalf of the LEA

REVENUE FROM FEDERAL SOURCES:
- Unrestricted grants-in-aid direct from the federal government
- Unrestricted grants-in-aid from the federal government through the state
- Grants-in-aid from the federal government through other intermediate sources
- Revenue in lieu of taxes
- Revenue for/on behalf of LEA

OTHER SOURCES:
- Sale or compensation for loss of fixed assets

NCES defines revenue from local sources as "the amount of money produced within the boundaries of the LEA for its use. Money collected in the same amount by another governmental unit as an agent of the LEA (less collection costs) is recorded as revenue from local sources. Shared revenue (revenue levied by another governmental unit, but shared in proportion to the amount collected within the LEA) is also recorded as revenue from local sources."

It defines revenue from intermediate sources as "revenue from funds collected by an intermediate administrative unit, or a political subdivision between the LEA and the state, and distributed to LEAs in amounts that differ in proportion to those which were collected within such systems."

The 1980 NCES publication also defines revenue from state sources as "revenue from funds produced within the boundaries of and collected by the state and distributed to LEAs in amounts different proportionately from those which were collected within such LEAs."

"Revenue from federal sources is revenue from funds collected by the federal government and distributed to LEAs in amounts that differ in proportion from those which were collected within such LEAs. In determining whether a revenue is a federal revenue, it is unimportant whether the funds are distributed directly to the LEA by the federal government or through some intervening agency such as the state," according to the NCES publication.

ESTIMATED UNCOLLECTIBLE TAXES—GENERAL FUND AS TAX COLLECTOR

At the time of levying a tax, it is known, as a result of previous experience, that all taxes will not be collected. However, in order to provide a complete accounting for all assets of the school system, the entire amount of taxes levied is recorded. An estimate is made at the same time for the amount of uncollectible taxes and that estimate is recorded as a part of the entry recording taxes receivable. An illustration of the entry is as follows:

Taxes receivable, 19--	100,000	
Estimated uncollectible taxes, 19--		5,000
Revenue from taxes		95,000
To record the tax levy for 19--.		

Failure to record the entire tax levy can lead to losses of revenue without knowledge of the board of education and school administrators. It is best to bring the entire tax levy into the formal accounting records, keeping both the taxes receivable account and related estimated uncollectible taxes account on the books until all taxes are collected or until the board, with legal counsel, authorizes certain taxes receivable to be written off. Delinquent taxes usually become a lein on real property and, as a result, they are not written off until the property is sold or otherwise converted to some other use. In this way, the board is in complete control of all taxes potentially collectible and can determine from the balances of these accounts the amount that remains to be collected or written off. A continuous record of collections is possible.

TRANSACTIONS ILLUSTRATING COLLECTION OF TAXES RECEIVABLE

When taxes receivable are collected, the following entry is made:

Cash	55,000	
Taxes receivable, 19--		55,000
To record collection of taxes receivable.		

The balance sheet, if prepared at this point in the accounting period, would show the status of taxes receivable as follows:

Taxes receivable, 19--	$45,000	
Less: Estimated uncollectible taxes, 19--	5,000	$40,000

If an additional $43,000 of taxes receivable are collected, the following entry would adjust the balance of the estimated uncollectible taxes to an amount equal to the remaining balance of the taxes receivable account:

Cash	43,000	
Estimated uncollectible taxes, 19--	3,000	
Taxes receivable, 19--		43,000
Revenue from taxes (or fund equity)		3,000
To record collection of taxes receivable and to adjust the balance of estimated uncollectible taxes to an amount equal to the balance of taxes receivable.		

If a balance sheet were prepared at this point, taxes receivable would appear as follows:

Taxes receivable, 19--	$ 2,000	
Less: Estimated uncollectible taxes, 19--	12,000	-0-

Continuing to report the amount of taxes receivable —even though it is estimated to be uncollectible—gives the board of education full information about its right to continue efforts to collect the taxes assessed. If, however, authority were to be granted by the board, the remaining taxes receivable could be written off against the uncollectible taxes account. Full disclosure requires that all taxes be recorded at the time of the levy.

REVISIONS IN AMOUNTS OF ESTIMATED UNCOLLECTIBLE TAXES

In the event that it is deemed appropriate by the board of education to revise the amount of estimated uncollectible taxes, alternatives exist for recording the revision correctly. The time at which the revision is made determines which of the alternatives to use. If a revision in the amount of estimated uncollectible taxes is to be made during the fiscal period in which the tax was assessed and levied, the amount of the revision affects revenue from taxes realized during that fiscal period. Therefore, the corresponding debit or credit would be recorded in the revenue from taxes account.

If a revision in amount of estimated uncollectible taxes is to be made during a fiscal period other than the fiscal period in which the tax was assessed and levied, the revision represents a correction of a prior period's revenue and, as a result, the corresponding correction would be made to the fund equity account directly.

DEFERRED REVENUE FROM TAXES

If revenue of a material amount is contained in a tax levy of one year but will not become available until a future fiscal period, the revenue should be recognized in the accounting period in which it becomes available. Therefore, a portion of the tax levy may be deferred until it becomes "available" in a future fiscal period by crediting a liability account entitled "Deferred revenue from taxes", rather than crediting "Revenue from taxes" for the entire amount. Therefore, property tax revenue is recognized when it becomes available. GASB defines "available" to mean "then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days." For example, assume that $75,000 of a $100,000 tax levy made in one fiscal period will not become available until the next fiscal period. Entries to record the taxes receivable when levied in this case would be:

Taxes receivable, 19--	100,000	
Estimated uncollectible taxes, 19--		5,000
Deferred revenue from taxes		75,000
Revenue from taxes		20,000
To record tax levy in which $75,000 will not become available until the following fiscal period.		

During the following fiscal period when the revenue becomes available, the following entry would be made:

Deferred revenue from taxes	75,000	
Revenue from taxes		75,000
To recognize revenue during the year in which it becomes available.		

OTHER METHODS OF TAX COLLECTION BY FUNDS

The illustration thus far shows the general fund serving as the tax collector for the amount of taxes assessed and levied for the general fund alone. Taxes may be assessed and levied for funds of the school system other than the general fund. For instance, a special tax may be levied and collected by a special revenue fund or a special voted tax may be levied and collected for the retirement of bonded debt and interest by a debt service fund. If this is the case, accounts would appear in each fund not only for the current year's taxes receivable with its corresponding account for estimated uncollectible taxes but also for each prior year's delinquent taxes receivable with corresponding accounts for estimated uncollectible taxes.

A number of methods can provide equally effective safeguards for taxes receivable for individual funds.

Method 1: The general fund could serve as the tax collector for all taxes assessed and levied for the school system. Assume that a ten mill levy is to be divided as follows: five mills to the general fund, three mills to the special revenue fund, and two mills to the debt service fund and that the levy was for $110,000 of which $10,000 is estimated to be uncollectible. The general fund, as the tax collector, would record the entire levy as follows:

(1)	Taxes receivable, 19--	110,000	
	Estimated uncollectible taxes, 19--		10,000
	Revenue from taxes		50,000
	Due to Special Revenue Fund		30,000
	Due to Debt Service Fund		20,000
	To record 19-- tax levy, 5 mills for the General Fund, 3 mills for the Special Revenue Fund, and 2 mills for the Debt Service Fund.		

Assume that $50,000 is collected during the year by the general fund. The entries to collect and distribute the amount collected to each participating fund would be recorded as follows:

(2) Cash	50,000	
Taxes receivable, 19--		50,000
To record tax collection.		
Due to Special Revenue Fund	15,000	
Due to Debt Service Fund	10,000	
Cash		25,000
To record distribution of cash from taxes receivable to Special Revenue Fund and Debt Service Fund on 3 to 2 ratio, respectively.		

Assume that $55,000 is collected in the second year by the general fund from taxes receivable. The transaction would be recorded as follows:

(3) Cash	55,000	
Taxes receivable, 19--		55,000
To record collections applicable to 19--.		

At this point taxes receivable, 19--, has a balance of $5,000 while the estimated uncollectible taxes, 19--, has a balance of $10,000, which is more than required. The adjustment is recorded as follows:

Estimated uncollectible taxes, 19--	5,000	
General fund equity		2,500
Due to Special Revenue Fund		1,500
Due to Debt Service Fund		1,000
To record an adjustment due to collection of taxes receivable, 19--, in the amount of $5,000 in excess of that estimated.		

Assume that cash of $27,500 is distributed by the general fund to the special revenue fund and the debt service fund. The entry would be recorded as follows:

(4) Due to Special Revenue Fund	16,500	
Due to Debt Service Fund	11,000	
Cash		27,500
To record distribution of cash from taxes receivable, 19--, to the Special Revenue Fund and Debt Service Fund on 3 to 2 ratio, respectively.		

Assume that the balance of taxes receivable, 19--, is deemed by the board of education to be uncollectible and that authority is granted by board action to write off the remaining balance. The entry would be recorded as follows:

(5) Estimated uncollectible taxes, 19--	5,000	
Taxes receivable, 19--		5,000
To write off the remainder of taxes receivable, 19--, as authorized by the board of education on (date).		

This method has the advantage of reducing the number of accounts required by both the special revenue fund and the debt service fund. Corresponding entries on the books of the special revenue fund and the debt service fund would be as follows:

	Special Revenue Fund		Debt Service Fund	
(1) Due from the General Fund	30,000		20,000	
Revenue from taxes		30,000		20,000
To record claim against the General Fund for 19.... taxes receivable.				
(2) Cash	15,000		10,000	
Due from General Fund		15,000		10,000
To record collection of cash from taxes collected by the General Fund.				
(3) Due from the General Fund	1,500		1,000	
Fund equity		1,500		1,000
To record adjustment in estimated uncollectible taxes, 19...., by the General Fund.				
(4) Cash	16,500		11,000	
Due from the General Fund		16,500		11,000
To record collection of cash from taxes collected by the General Fund.				

Method 2: An agency fund could be created within the school district or by another governmental agency and designated as The Tax Collector's Agency Fund. The duties of the tax collector would be to collect all taxes receivable and to distribute cash, as collected, to each of the participating funds. If created by another governmental agency, a service charge may be incurred. Assuming that a tax levy is to be divided as follows: five mills to the general fund, three mills to the special revenue fund, and two mills to the debt service fund and that the tax levy is $110,000 of which $10,000 is estimated to be uncollectible. Entries in the general journal of the agency fund would be as follows:

(1)	Taxes receivable, 19--	110,000	
	Estimated uncollectible taxes, 19--		10,000
	Due to the General Fund		50,000
	Due to Special Revenue Fund		30,000
	Due to Debt Service Fund		20,000
	To record 19-- tax levy, 5 mills for the General Fund, 3 mills for the Special Revenue Fund, and 2 mills for the Debt Service Fund.		

Assume that $50,000 is collected during the year by the agency fund. The entries to collect and distribute the amount collected to each participating fund would be recorded as follows:

(2)	Cash	50,000	
	Taxes receivable, 19--		50,000
	To record collection of taxes.		
	Due to the General Fund	25,000	
	Due to Special Revenue Fund	15,000	
	Due to Debt Service Fund	10,000	
	Cash		50,000
	To record distribution of cash from taxes receivable to the General Fund, Special Revenue Fund, and Debt Service Fund on the ratio of 5:3:2, respectively.		

Assume that $45,000 is collected during the year of the assessment and that due to economic conditions, it appears that the allowance for estimated uncollectible taxes should be increased by an additional $5,000. Entries to record these transactions are as follows:

(3)	Cash	45,000	
	Taxes receivable, 19--		45,000
	To record additional collection of taxes.		
(4)	Due to the General Fund	2,500	
	Due to Special Revenue Fund	1,500	
	Due to Debt Service Fund	1,000	
	Estimated uncollectible taxes, 19--	5,000	
	To record an adjustment increasing the estimated uncollectible taxes by $5,000 distributed on 5:3:2 ratio to funds.		
(5)	Due to the General Fund	22,500	
	Due to Special Revenue Fund	13,500	
	Due to Debt Service Fund	9,000	
	Cash		45,000

To record distribution of cash from collection of taxes receivable to the General Fund, Special Revenue Fund and Debt Service Fund on a ratio of 5:3:2, respectively.

Assume that the remaining taxes receivable, 19--, are deemed to be uncollectible and that the board of education authorizes them to be written off. The following entry would be made in the general journal of the agency fund, thereby closing the accounts applicable to taxes receivable, 19--:

(6)	Estimated uncollectible taxes, 19--	15,000	
	Taxes receivable, 19--		15,000
	To write off the balance of taxes receivable, 19--, authorized by the board on (date).		

Corresponding entries on the books of the general fund, special revenue fund, and debt service fund would be as follows:

		General Fund		Special Revenue Fund		Debt Service Fund	
(1)	Due from the Agency Fund	50,000		30,000		20,000	
	Revenue from taxes		50,000		30,000		20,000
	To record assessment of 19... taxes by the Tax Collection Agency Fund.						
(2)	Cash	25,000		15,000		10,000	
	Due from the Agency Fund		25,000		15,000		10,000
	To record cash distributed by the Tax Collection Agency Fund.						
(3)	No entry.						
(4)	Revenue from taxes	2,500		1,500		1,000	
	Due from the Agency Fund		2,500		1,500		1,000
	To record adjustment in current year's revenue due to increasing the estimated uncollectible taxes by $5,000 in the Agency Fund, distributed in the ratio of 5:3:2, respectively.						
(5)	Cash	22,500		13,500		9,000	
	Due from the Agency Fund		22,500		13,500		9,000
	To record final collection of taxes receivable, 19....						

LIMITS ON TAXATION

Generally, statutes do not permit the local governing boards to assess and levy an unlimited tax for public purposes, but place a ceiling on the amount that may be assessed and levied. The mathematical formulas by which such limitations are set vary widely. Limitations may be placed by a millage rate to be applied to the assessed valuation of property. Certain procedures are prescribed to change a millage rate and these procedures must be followed according to statutes. Certain procedures are also prescribed to change assessed valuations and they must be followed.

Additional restrictions may be made by statute which limit the amount of bonds that may be issued for public purposes. Debt service funds may be established to collect taxes based upon the rates established in accordance with the limitations placed by statute. In other cases, administrative devices may be created by the board of education which place restrictions upon the amount of revenue to be received from certain sources.

BUDGETARY CONTROL OF REVENUE AND EXPENDITURES

Control of revenue and expenditures during the fiscal period is most effective when daily comparisons are made between them and budgets prepared which cover the same fiscal period. Interim financial statements which compare revenue and expenditures with budgeted revenue and expenditures at least once each month are a major function of managerial accounting for funds and account groups used by school systems. Unfortunately, in many cases the fiscal year of the school system and the fiscal year of other governmental units which provide sources of revenue for the school system do not coincide. This makes confirmation of and reconciliations of revenue from other governmental sources more difficult for the school business staff. If the fiscal year of the school system and the fiscal year of these other governmental agencies do coincide, confirmations and reconciliations are easier and the school system is able to have a clearer picture of its revenue.

THE AMBIGUOUS TERM "CASH BASIS"

Two widely varying impressions are created when the term "cash basis" is used in referring to business transactions of school systems. One impression is that adequate accounting can be restricted to recording and reporting only those financial transactions that involve cash receipts and disbursements, but a recording and reporting system which concerns itself only with cash receipts and disbursements subjects a school system to financial losses and fails to provide financial information essential to intelligent policy decisions on the part of a board of education and effective management actions on the part of its administrative officers. A control of all other assets in addition to cash, such as inventories of supplies, accounts receivable, taxes receivable, and equipment is as important as control of cash itself. An accounting system that provides complete information about the fund's assets, its liabilities and financial obligations, and the current relationship of actual revenue and expenditures is vital to sound business, financial, and educational administration.

The second impression created by use of the term "cash basis" concerns the following questions:

1. Should revenue be recognized in the accounts when the school system gains a right to it or should recognition of the revenue be postponed until it is actually collected in the form of cash?
2. Should an expenditure be recorded when the debt is incurred or should it be recorded only upon payment?

Simplicity would permit postponing recognition of revenue until it is collected; however, the danger of suffering unrevealed and unnecessary losses exists when recognition is postponed. For instance, a revenue is created at the time of the levy of property tax. The asset, taxes receivable, should be recorded in full at the time of the levy. Taxes receivable should remain on the books until collected or until authorized to be written off by direction of the board of education. In this way, the money which should come from taxes will be under the control of the board from the time the taxes are levied until they are collected or until they are authorized to be written off

In its Interpretation 3, GASB stated: "Property tax revenues are recognized when they become available. Available means then due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Such time thereafter shall not exceed 60 days..." Therefore, a part of a tax levy may be properly recorded as a deferred revenue and reported as a liability until it becomes available in a future fiscal period.

If, on the other hand, revenue from taxes is recognized only when collected, the collection process may require a long period of time and during that time the accounts will not reflect the amount that should be collected. Under such circumstances, the board will not be able to compare actual cash collections with the amount that should be collected and, as a result, it would be difficult to exercise reasonable judgment when attempting to make decisions about methods to be used to collect taxes. Cash control and preservation of public property is possible only when all assets of the school system are recorded in full. When all assets are recorded, proceeds from conversion of any asset can be traced.

A school system may find that the amount of revenue to be recorded can be determined only when cash is collected. For example, revenue from sources such as tuition is not susceptible to accrual and the amount of revenue may be determined only when cash is collected. Recognition of revenue under this set of circumstances is frequently referred to as a "cash basis".

Simplicity suggests postponement of recording expenditures until cash is paid. However, failure to record expenditures and their related liabilities when they are incurred results in financial statements which do not disclose the financial position of the fund and, as a result, a serious fund deficit could be concealed. Decisions which are based upon fragmentary information in interim financial statements are dangerous.

Full disclosure of financial condition is possible in interim (monthly) and annual financial statements and full disclosure of financial information should be a basic demand of the board of education and its administrative officers. To provide full disclosure, however, adequate facilities and a competent staff must be provided. It is important for the board of education to have up-to-date financial information throughout the fiscal period so that it can read the "road signs" along the way—so that it can make informed decisions during the accounting period when decisions can be effective in preventing deficits, expenditures in excess of legal limits, or loss of revenue and/or assets.

ACCRUAL BASIS

The Governmental Accounting Standards Board (GASB), in discussing the accrual basis in governmental accounting in its 1979 *Statement 1, Governmental Accounting and Financial Reporting Principles*, states that the "'basis of accounting' refers to when revenues, expenditures, expenses, and transfers--and the related assets and liabilities--are recognized in the accounts and reported in the financial statements... Under the *accrual* basis of accounting, most transactions are recorded when they occur, regardless of when cash is received or disbursed. Items not practicably measurable until cash is received or disbursed are accounted for at that time in both commercial and governmental accounting, as may be items whose measurement would be approximately the same under either basis or which are immaterial." GASB further states: "The accrual basis is the superior method of accounting for the economic resources of any organization. It results in accounting measurements based on the substance of transactions and events, rather than merely when cash is received or disbursed, and thus enhances their relevance, neutrality, timeliness, completeness and comparability. Accordingly, the Council recommends use of the accrual basis to the fullest extent practicable in the government environment...The cash basis of accounting is not appropriate."

In GASB's Interpretation 3, it states: "Under the cash basis of accounting, revenue and transfers in are not recorded in the accounts until cash is received and expenditures or expenses (as appropriate) and transfers out are recorded only when cash is disbursed. Under the accrual basis of accounting, most transactions are recorded when they occur, regardless of when cash is received or disbursed...The accrual basis is the superior method of accounting for the economic resources of any organization." GASB also describes a "modified accrual basis" for recognizing revenue and expenditures in the general fund, special revenue funds, capital projects funds and debt service funds in its Statement 1.

At the time of preparing interim financial statements, a better picture of the financial position and the results of operation of a fund is presented if accrued revenue, accrued expenditures (expenses), prepaid expenses, and deferred credits to revenue are shown. It is particularly important at the end of the fiscal period that all revenue earned during the period, that all expenditures incurred during the fiscal period, that all assets acquired whose costs are to be allocated partly to the current fiscal period and partly to future fiscal periods be shown and that revenue be deferred when revenue is collected but applicable to future fiscal periods. The extent to which any of these items is not shown in the annual financial statements distorts both the financial position and the results of operation of a fund for the period. ASBO also recommends that the accrual basis of accounting be used to the extent possible.

EXPENDITURES

In defining the term "expenditures", GASB stated that "Where the accounts are kept on the accrual basis...this term designates the cost of goods delivered or services rendered, whether paid or unpaid, including expenses, provision for debt retirement not reported as a liability of the fund from which retired, and capital outlays." The term includes expenses (charges that result in the reduction of the net assets of the fund such as the cost of operating and maintaining the school system and charges for which no future benefit or recoverable value can be received), debt service (charges for retirement of the principal amount of a long-term debt and interest on it which is not reported as a liability of the fund from which retired), and capital outlay (charges for assets of a fixed nature that are not capitalized in the fund making the expenditure). The term, expenditures, then, is broader than the term expense because it also includes charges for debt service and capital outlay. Because the term "expenditures" is used in the formal budgetary funds or governmental type funds, depreciation is not included because fixed assets are not carried in this type of fund.

CLASSIFICATION OF EXPENDITURE ACCOUNTS

The 1980 NCES publication classifies expenditures into two kinds. One classification is deemed to be essential for reporting expenditures at the federal level and the other is optional for LEA management. The classification is not solely for use in the general fund but it can also be adapted for use by any other fund or account group created by the state or local education agency. The basic objective of NCES in its 1980 publication is to obtain comparable statistical data on a nationwide basis.

It is important that a uniform classification of expenditures be consistently applied to the individual school system's expenditure structure for each fund from one accounting period to another if meaningful comparative information is to be produced at the local level. Consistency in application of classifications to expenditures does not imply a lack of freedom to alter the classifications when governing boards determine that a change is necessary. However, indiscriminate changes in classification should be avoided.

Expenditures may be classified for any of the following reasons:

1. For preparing financial statements for internal adminis trative use, for use of the board of education, for external use by other governmental agencies at the local, state, province, or federal level, and for public information and financial support.
2. For estimating future expenditures of the school system.
3. For administrative control of an appropriation wherein the amount authorized for expenditure for certain purposes is limited by law.

In chapter 2, it was indicated that ASBO recommends use of the following fund and account groups:

- Formal budgetary funds (governmental type funds):
  - The General Fund
  - Special Revenue Funds
  - Capital Project Funds
  - Debt Service Funds
- Account groups:
  - General Fixed Assets Group of Accounts
  - General Long-term Debt Group of Accounts
- Proprietary funds:
  - Internal Services Funds
  - Enterprise Funds
- Fiduciary funds:
  - Trust Funds
  - Agency Funds

No one fund or account group will, in all probability, find a use for all of the accounts suggested in the 1908 NCES publication, but NCES states that classifications which are essential to meet many of the important federal (and most state) reporting requirements are found within the following:

- Program
- Function
- Object
- Project/Reporting

NCES suggests that a number of additional expenditure dimensions which may be used at the option of the state or local education agency include:

- Level of instruction
- Operational unit
- Subject matter
- Job classification
- Special cost center

The possibility of classifying each expenditure of a school system in many, many different and unique ways to satisfy various publics who are concerned with the operation of the school system is a characteristic which makes financial analysis for school systems different from financial analysis for commercial and other governmental units. Depending upon the capabilities of the accounting system, the machinery and/or the computers used, there are no limits to ways by which an expenditure may be classified nor are there limits to concepts for allocating the amount of an expenditure for various purposes. Cost analysis, based upon a sound financial data base, is extremely important. Emphasis can be placed on uses of financial data, techniques of cost analysis, and various goals and objectives that can be reached through cost allocation techniques.

Whether operating manually or with a computer, financial and managerial accounting for school systems can achieve the highest level of efficiency, simplicity, control and understanding by all concerned when expenditures are classified as follows:

By fund
By fiscal year
By organizational unit
By object

The extent to which the school system may enjoy additional classifications of expenditures depends upon what financial resources are available for further expenditure analysis and classification. Organizational unit is emphasized because responsibility for financial administration can be placed upon designated people who are employed, among other things, to achieve the objectives for which the organizational unit was created. Financial control can be effective only when all expenditures are authorized by the board of education and executed by properly designated people.

OBJECT CLASSIFICATION OF EXPENDITURES

By the term "object of an expenditure", the thing for which the expenditure is made is identified. The object classification contained in the 1980 publication of NCES lists the following:

PERSONAL SERVICES-SALARIES:
    Salaries of regular employees
    Salaries of temporary employees
    Salaries for overtime
    Salaries for sabbatical leave
PERSONAL SERVICES-EMPLOYEE BENEFITS
    Group insurance
    Social security contributions
    Retirement contributions
    Tuition reimbursement
    Unemployment compensation
    Worker's compensation
    Other employee benefits
PURCHASED PROFESSIONAL AND TECHNICAL SERVICES:
    Official/administrative services
    Professional-educational services
    Other professional services
    Technical services
PURCHASED PROPERTY SERVICES:
    Utility services
    Cleaning services
    Repairs and maintenance services

- Rentals
- Construction services
- Other purchased property services

OTHER PURCHASED SERVICES:
- Student transportation services
- Insurance (other than employee benefits)
- Communications
- Advertising
- Printing and binding
- Tuition:
  - Tuition to other LEAs within the state
  - Tuition to other LEAs outside the state
  - Tuition to private sources
  - Tuition-other
- Travel
- Miscellaneous purchased services

SUPPLIES:
- General supplies
- Energy
- Books and periodicals

PROPERTY:
- Land and improvements
- Buildings
- Equipment

OTHER OBJECTS:
- Dues and fees
- Judgments against the LEA
- Interest
- Miscellaneous expenditures

OTHER USES:
- Redemption of principal
- Housing Authority obligations

FUNCTION CLASSIFICATION OF EXPENDITURES

The term "function" refers to a group of related activities that are necessary to accomplish a major service of the school system. The 1980 NCES publication also classifies expenditures by function as follows:

INSTRUCTION

SUPPORT SERVICES
- Support services-students:
  - Guidance services
  - Health services
  - Psychological services
  - Speech pathology and audiology services
  - Other support services-students

- Support services-instructional staff:
  - Improvement of instruction services
  - Educational media services
  - Other support services-instructional staff
- Support services-general administration:
  - Board of education
  - Executive administration services
  - Special area administration services
- Support services-school administration:
  - Office of principal services
  - Other support services-school administration
- Support services-business:
  - Fiscal services
  - Printing, publishing, and duplicating services
  - Other support services-business
- Operation and maintenance of plant services:
  - Supervision of operation and maintenance of plant services
  - Operating buildings services
  - Care and upkeep of grounds services
  - Vehicle operation and maintenance services
  - Security services
  - Other operation and maintenance of plant services
- Student transportation services:
  - Supervision of student transportation services
  - Vehicle operation services
  - Monitoring services
  - Vehicle servicing and maintenance services
  - Other student transportation services
- Support services-central:
  - Planning, research, development and evaluation services
  - Information services
  - Staff services
  - Data processing services
  - Other support services
- Facilities acquisition and construction services
- Other uses:
  - Debt services

PROGRAM CLASSIFICATION OF EXPENDITURES

NCES states that classification essential to meet many of the important federal (and state) reporting requirements includes an additional classification by program. It defines program as "a plan of activities and procedures designed to accomplish a predetermined objective or set of objectives." This dimension provides LEAs the framework to classify expenditures by program to determine cost. Using this dimension allows certain support service costs to be classified by both function and program. The NCES 1980 classification is:

- REGULAR PROGRAMS-ELEMENTARY/SECONDARY
- SPECIAL PROGRAMS
  - Mentally retarded
    - Educable mentally retarded
    - Trainable mentally retarded
  - Physically handicapped
    - Hard of hearing
    - Deaf
    - Deaf-blind
    - Visually handicapped
    - Speech impaired
    - Crippled
    - Other health impaired
  - Emotionally disturbed
  - Learning disabled
  - Culturally deprived
  - Bilingual
  - Gifted and Talented
  - Vocational programs
    - Agriculture
    - Distributive education
    - Health occupations
    - Home economics
      - Occupational
      - Consumer and homemaking
    - Industrial arts
    - Office occupations
    - Technical education
    - Trades and industrial occupations
    - Other vocational programs
  - Other instructional programs-elementary/secondary
    - School-sponsored cocurricular activities
    - School-sponsored athletics
    - Other
  - Nonpublic school programs
  - Adult/continuing education programs
  - Community/junior college educational programs

- Community services programs
  - Community recreation
  - Civic services
  - Public library services
  - Custody and child care services
  - Welfare activities
  - Other community services
- Enterprise programs
  - Food services
  - Other enterprise programs
- Undistributed expenditures

CAPITAL OUTLAY EXPENDITURES

Expenditure accounts are classified as "capital outlay" when general fixed assets, i.e., land, buildings, machinery and equipment, are acquired in the general fund, special revenue funds, and/or capital projects funds. All expenditures for capital outlay from these funds can be traced to the general fixed assets account group where they are recorded and accounted for throughout the useful life of each asset.

Using expenditure accounts rather than asset accounts for this purpose is a generally accepted practice in school accounting and in all other areas of governmental accounting. This practice, however, creates a major difference between commercial accounting and governmental accounting.

DEBT SERVICE EXPENDITURES

Expenditure accounts, classified as "debt service", are used in the general fund, special revenue funds, and debt service funds to record payment of interest on long-term debt and the principal amount of the long-term debt when it is due. Long-term debt, however, is not recorded in these funds but, instead, is recorded in the general long-term debt account group. Accounts are maintained in this account group from which interim and annual financial reports are prepared throughout the outstanding life of the obligation.

The fact that long-term debts are not carried as a part of the general fund, special revenue funds, capital projects funds and debt service funds but, instead, are recorded in and reported from the general long-term debt account group also makes accounting for school systems and other governmental units materially different from accounting for commercial enterprises.

Chapter 7
Revenue and Expenditure Accounts

QUESTIONS

7-1. Define revenue.

7-2. If cash or other asset is received, what qualifications must exist if it is to be recorded as being received from a revenue source?

7-3. List the major classifications of revenue recommended by NCES in 1980.

7-4. What does the term "non-revenue" receipt refer to? Give three types of non-revenue receipts.

7-5. Give an example of a non-revenue receipt that (a) increases a liability; (b) decreases another asset; (c) represents a cash reimbursement of a previous expenditure.

7-6. What does the term "receipt" refer to? How is the receipt of cash recorded?

7-7. Why should taxes levied be recorded on the books as taxes receivable immediately?

7-8. How are expenditures defined when the accrual basis of accounting is used?

7-9. What basis of accounting is recommended by ASBO?

7-10. What advantages accrue to a school system if the fiscal year and the budget year coincide?

CASES AND PROBLEMS

The following account titles and account numbers should be used in the problems of chapter 7.

	Account Numbers	*Account Titles*
Assets:	101	Cash
	105	Cash, certificates of deposit
	110	Taxes receivable
	120	Accounts receivable
	141	Due from township

Liabilities:	402	Accounts payable
	404	Contracts payable
	430	Advance from trust fund
Fund Balance:	704	Fund balance
Revenue:	1000	Revenue from local sources
	1110	Ad valorem taxes levied
	1130	Sales and use taxes
	1510	Interest on investments
	1920	Contributions-private sources
	2000	Revenue from intermediate sources
	2110	Unrestricted grants-in-aid
	3000	Revenue from state sources
	3110	Unrestricted grants-in-aid
	4000	Revenue from federal sources
	4110	Unrestricted grants-in-aid
Expenditures: (By object)		
	100	Salaries
	200	Employee benefits
	321	Public utility services
	323	Repairs and maintenance services
	324	Property insurance
	326	Leases
	410	Supplies expense
	500	Capital outlay
	510	Land
	540	Equipment
	620	Interest expense

7-1. Below are listed transactions of the Bolivar School District in addition to balances of accounts as of May 31, 19--:

A. Account balances on May 1 were as follows:

Cash	$ 7,000
Cash, certificates of deposit	17,500
Taxes receivable	10,000
Fund balance	34,500

B. Cash was collected as follows:

Revenue from local sources-sales and use tax	$ 10,000
Revenue from intermediate sources:	
Unrestricted grants-in-aid	300,000
Revenue from state sources:	
Unrestricted grants-in-aid	4,000
Revenue from federal sources:	
Unrestricted grants-in-aid	10,000

C. Revenue from sales and use taxes of $25,000 was collected.

D. $160,000 was received from the state as an unrestricted grant-in-aid.
E. The school system paid $75,000 for certain equipment pur chased as the result of issuing bids.
F. Paid annual boiler inspection fee, $300, to Taylor Boiler Co.
G. Paid employee benefits totaling $10,000.
H. Paid utility bill for electricity, $2,500.
I. Salaries and wages for the month were paid in the amount of $300,000.
J. Interest on certificates of deposit of $450 was collected.
K. Taxes receivable as of May 1 were collected.

INSTRUCTIONS:

1. Record the May 1 balances of the accounts in the general fund.
2. Record each of the transactions in general journal form using the account titles and numbers indicated before problem 7-1.
3. Prepare a worksheet as of May 31, 19--.
4. Prepare a statement of revenue, expenditures and fund equity for the month ended May 31, 19--, showing detailed information about the source and amount of revenue and detailed purposes of each expenditure.
5. Prepare a balance sheet as of May 31, 19--.

7-2. The Jackson School District started its fiscal year on July 1, 19--, with: cash, $4,000; contracts payable, $3,000; and fund balance, $1,000. During the year, the following transactions took place:

A. Ad valorem taxes were assessed and levied on real property, $20,000, by the school system.
B. Paid interest on debt, $200.
C. Purchased equipment for $5,000, paying $3,000 in cash and the balance was charged on open account.
D. Collected $15,000 from taxes assessed in A, above.
E. Purchased supplies on account, $6,000.
F. Received $45,000 from the state for unrestricted grants-in aid.
G. Purchased supplies in the amount of $700 for cash.
H. Paid $1,500 on accounts payable.
I. Rent for use of buildings was paid in the amount of $3,000.
J. $1,500 was paid for insurance on buildings and equipment.
K. Purchased land for $20,000 in cash.
L. Paid salaries of $15,000 and employee benefits of $1,500.
M. Paid $300 for lease of school car from Copper Motor Co.
N. Paid for lights and power in the amount of $7,500.

INSTRUCTIONS:

1. Record the beginning balances in the accounts of the general fund.
2. Record the foregoing transactions in general journal form and post to the general ledger accounts.
3. Prepare a trial balance as of June 30, 19--, the end of the fiscal period.

7-3. At the beginning of the year, January 1, 19--, the general fund of the Wesley School District had account balances as follows:

Cash	$ 9,000	
Taxes receivable	10,000	
Due from township	8,000	
Advance from trust fund		$ 5,000
General fund balance		22,000
	$27,000	$27,000

The following transactions occurred during the month:

A. Purchased supplies on account for $20,000.
B. Collected $250,000 in revenue from the state for unrestricted grants-in-aid.
C. Received a cash donation in the amount of $1,500 from local citizens.
D. Collected $70,000 in revenue from intermediate sources as unrestricted grants-in-aid.
E. Paid the advance from the trust fund, $5,000 plus $30 interest.
F. Collected $7,500 from taxes receivable.
G. Paid salaries of $175,000 and employee benefits of $17,500.
H. Collected the amount loaned to the township.
I. Returned supplies for $1,000 on account.
J. Made payment on accounts payable, $15,000.

INSTRUCTIONS:

1. Record the balances of the accounts in the general fund's general ledger at the beginning of the year and record the transactions in general journal form.
2. Post to the general ledger.
3. Prepare a trial balance as of January 31, 19--.

8

BUDGETARY ACCOUNTING: MANAGING REVENUES AND EXPENDITURES

The school board is responsible both for raising money through taxation and other sources of revenue and for expending that money in accordance with provisions of constitutions, federal and state laws, statutes, court decisions, board decisions and administrative action. As a result, the budget system found to be useful in all other areas of public administration is also a useful tool in the administration of school systems.

The school board requires that a budget be prepared to estimate the revenue required to achieve the educational objectives of the school system during a forthcoming fiscal period. The budget sets forth the school system's plan for financial operation for a prescribed period of time, usually one or two years, and is designed and developed to meet the circumstances surrounding the individual school system. The budget, when adopted, is a basis upon which tax rates can be set and it is the legal document that places restrictions on amounts that may be expended for those purposes.

THE BUDGET AND BUDGETARY ACCOUNTS

One of the functions of managerial accounting is to provide information about current financial operations of the school system's general fund, special revenue funds, capital projects funds, and debt service funds in comparison to budgets adopted for each. When a budget is adopted for a fund, the amounts proposed to be used for specified purposes become appropriations, and authority is granted by the appropriation act to permit expenditures during the fiscal period in an amount not to exceed the appropriation. The appropriation act must take into consideration the various sources from which the school system realizes revenue. Failure to provide sufficient revenues to cover appropriations would result in an operating deficit. Therefore, frequently the rate of tax to be levied is affected by the amounts proposed for expenditures.

BUDGETARY PROCEDURES

Budgetary procedures may be divided into four steps: the preparation, presentation, adoption, and execution. Each step in the budget process is discussed.

PREPARATION OF THE BUDGET. Who prepares the budget varies from school system to school system. In some cases the board itself or a committee of its members takes charge of budget preparation. In other cases, the budget is prepared under the supervision of the chief school officer. The technical work may be done by an employee who may be designated as budget director. The budget director should be familiar with all sources of the school district's revenue, the educational programs, the organizational structure, and the accounting procedures of the school district.

The budget calendar. Sound financial administration requires that preparation of the budget be started far enough in advance of the board's adoption of it that all procedures necessary for its careful study and adoption can be completed before the beginning of the period to which it applies, referred to as the budget period, budget year, accounting period, or fiscal period. Titles for these periods of time are used interchangeably. To insure that the budget will be prepared sufficiently in advance of the board's adoption, a budget calendar should be set up which indicates what steps should be completed by certain dates. A budget calendar serves as a guide to all persons charged with responsibility for the preparation of the budget.

Call for departmental estimates. The chief school officer or budget officer, will ask each department head to submit estimates of needs for the forthcoming budget period. An illustration of such a call is shown in part as follows:

CALL FOR DEPARTMENTAL ESTIMATES
OFFICE SUPPLIES

Session 19.... - 19....

To be completed by ...., 19.....

To be returned to the Office of the Budget Officer

Prepared by .... Approved by ....
(DEPARTMENT HEAD) (SUPERVISOR)

INSTRUCTIONS

Inventory all supplies on hand and enter in first column (left hand column under quantity). List the supplies to be ordered for next session in the second column (right hand column under quantity). Leave the last 2 columns (unit price and extension) blank.

Please make the amount of your request conform with the unit of quantity listed after each item.

There will not be any additional supplies on hand available to you during the session. We are ordering just enough supplies to fill each department's request so that a record may be kept of the cost of supplies for each office.

At the bottom of this form you will find some blank spaces in which to list supplies and equipment not already listed. If you need to put anything in these blank spaces, please look these items up in some current supply catalog; then put the following information after each "write in" item: (1) name and date of catalog in which found and (2) page number on which this particular item is listed.

Explanation of quantities: C = 100, ream = 500 sheets, quire = 24.

If you are in doubt about the description of any item, telephone ....

Description	Specifications	Quantity		Unit Price	Extension
		On Hand Now	Order		
		....	....	....	....
		....	....	....	....
		....	....	....	....
		....	....	....	....

When the estimate forms have been completed for each expenditure, such as supplies, materials, books, equipment, telephone, travel, etc., the estimated cost of each can be computed and the estimates recorded. Each department should make its own estimates because the department itself should know best what is needed for it to perform its duties and fulfill its educational responsibilities. The estimate forms are submitted to the supervisor, superintendent, or budget officer by specified dates. All estimates can then be combined for the entire school system. When the requests are combined, the chief school officer can review them, approve them, expand and/or reduce each estimate to meet

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the needs of each program to be carried out. The aggregate of all estimated expenditures must be within the amount of estimated revenues available to the school system.

When all revisions have been made by the chief school officer and budget officer, and the requests have been combined for the entire unit, the budget is submitted to the governing board for adoption or modification. The problem of having sufficient revenues to provide for the proposed expenditures is ever present. If the board has the power to establish the tax rate within legally specified limits, the final budget gives the board the necessary information needed to calculate the tax rate. Under these conditions, the rate calculated is, in effect, the proposed tax levy for the school system. The school district in this case is said to be fiscally independent.

Under another kind of organizational structure, the board is required to submit its budget to a governmental unit which has the power to assess and levy a tax. Such a governmental unit may include the requests of the school board along with requests of other units of government in establishing the tax rate. In the latter case, the governmental unit levies the tax, collects it, and allocates an amount to the school board which may be sufficient to pay expenditures proposed in the budget approved by the school board. The school district in this case is said to be fiscally dependent.

It is common practice for the budget to be revised at each reviewing level. However, an effective and realistic guide to estimating or forecasting future requirements may be provided by analysis of financial records for past fiscal periods and a modification of them by taking present conditions and anticipated needs into consideration.

Economic and political conditions surrounding the school district, both present and future, tend to make estimates of future revenues and expenditures difficult. Therefore, the budget has to be flexible, i.e. subject to change, at each step toward its ultimate adoption. It may have to be modified—up or down.

PRESENTATION OF THE BUDGET. After the chief school officer or school board, as the case may be, has prepared a summary comparing estimates of needs for the next budget year with the record of the prior period's actual revenue and expenditures, and has made modification where necessary, a "budget message" is prepared in which the major budget items are presented. Information based upon experience of prior years, the financial position of each fund and account group at the present time and as anticipated at the close of the current budget year, along with recommendations regarding financial policy and educational program needs for the coming fiscal year are made a part of the "budget message." Many supplemental financial schedules, including educational data, prepared from accounting and education records may be of invaluable assistance to the chief school officer and the board in gaining the cooperation necessary to carry out the proposed educational program and/or programs.

ADOPTION OF THE BUDGET. The school board takes steps necessary for the ultimate adoption of the budget. When this legislative body reaches agreement as to the reasonableness and adequacy of the proposed revenues and expenditures, it might call for a public hearing on the proposed budget. After these and other preliminary steps have been taken as required by law and public policy, the legislative body proceeds to adopt the budget by passing an appropriation resolution, ordinance, or act. The appropriation act is recorded in the minutes of the board meeting either in detail or in summary form with detailed supporting schedules.

EXECUTION OF THE BUDGET. When the budget is adopted through an appropriation act or ordinance and recorded in the minutes of the board, it contains a list of sources and amounts of revenue to be provided to the school system. It also lists, and thus appropriates, the amount of money that can be used for specific purposes. The appropriation act places a legal limit on the purposes and amounts that may be expended by administrative officers. The appropriation act gives administrative officers the authority to carry out the provisions of the budget.

It becomes necessary for administrative controls and accounting procedures to be established to carry out the budget provisions effectively. To do so, budgetary accounts are established in the funds affected by the budget for estimated revenue, appropriations, encumbrances, reserve for encumbrances and the budgeted fund balance.

BUDGETARY ACCOUNTS FOR REVENUE

The general ledger account and subsidiary revenue ledger account page format is changed by showing both the estimated revenue account and the revenue account on one page. By doing so, the page format compares estimated revenue with actual revenue. A mathematical computation immediately shows how much revenue remains unrealized or how much actual revenue has exceeded estimated revenue after each transaction. This difference appears in the unrealized revenue column and is referred to as a variance. Attention is drawn to that amount by its appearing in the unrealized revenue column.

The following illustrates the page format to show the general ledger controlling accounts for both estimated revenue and actual revenue on one page:

DATE		EXPLANATION	P R	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
			B 1					

REVENUE FROM TAXES

Account No.

DATE		EXPLANATION	P R	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
19--				DR.	CR.	DR.	CR.	
Jan.	1	To record budget	1	100,000				100,000
Apr.	1	To record tax levy	4				98,500	1,500
Dec.	31	Closing entries	9		100,000	98,500		-0-
				100,000	100,000	98,500	98,500	-0-

ANALYSIS OF REVENUE VARIANCES

The amount that appears in the unrealized revenue column is a management information figure. It represents a variance between estimated revenue and actual revenue. Variances may be caused by events which are either controllable or uncontrollable by administrative action. They can reflect conditions that are either favorable or unfavorable to the school system. If a controllable variance is found which is unfavorable to the school system, administative action can be taken to minimize further unfavorable variances. After each transaction is posted to the subsidiary revenue ledger the following question arises: Is other administrative action necessary in order to realize the amount of revenue that is available to the school system?

If actual revenue exceeds estimated revenue on any page, a favorable variance exists and the amount of the variance should be extended to the unrealized revenue column where it is placed in parenthesis to distinguish it from an unfavorable variance. In the case of favorable variances, additional action, in all probability, would not be required to realize the maximum amount of revenue from a particular source. Such an assumption should not be made, however, but the variance should be analyzed to determine whether additional revenue is available from that source.

The effective use of this form which shows the controlling accounts for revenue and estimated revenue in the general ledger, and which shows the related revenue accounts for each source in the subsidiary revenue ledger, assists management in realizing the maximum amount of revenue from each source that is available to the school system on a timely basis.

CONTROLLING ACCOUNTS AND SUBSIDIARY LEDGERS

There are many different sources of revenue and it is necessary that an account be used for each source. When budgetary accounts are used, estimated revenue accounts are also required for each source. There also are many expenditure accounts needed to record the nature of each and all expenditure accounts. When budgetary accounts are used, appropriation accounts, encumbrances accounts, and expenditures accounts have to be provided for each individual type of expenditure. Furthermore, an account is needed for individual asset accounts, for example, an account is needed to record the claim against each taxpayer when a tax levy is made. An account is needed to record the liability to each individual creditor, if a voucher system is not used. Therefore, the general ledger of a fund would be voluminous and bulky if all of these individual accounts were kept in the general ledger.

To reduce the size of the general ledger and yet provide all detailed information needed about these kinds of accounts, an effective accounting procedure has been developed which uses the concept of controlling accounts in the general ledger and individual subsidiary ledger accounts in a subsidiary ledger. A controlling account in the general ledger records in total what is recorded in detail in a subsidiary ledger.

For example, a fund may maintain one account in the general ledger for each of the following: revenues, estimated revenues, appropriations, encumbrances, and expenditures. In this example two subsidiary ledgers are needed. One may be identified as the revenue ledger and the other as the expenditures ledger. Other identifying titles may be equally descriptive of each subsidiary ledger.

Each subsidiary ledger account is identical in page format to its corresponding general ledger controlling account. Each subsidiary ledger account title identifies the specific nature of the account.

REVENUE ACCOUNTS

There are many different sources of revenue and it is necessary that an account be used for each source. To reduce the size of the general ledger and yet provide all detailed information that is needed for each source of estimated revenue and actual revenue, one revenue controlling account appears in the general ledger for total estimated revenue and one general ledger account appears for revenue. The subsidiary ledger provides budgetary accounting control over each individual source of revenue, an excellent managerial accounting device.

The following will illustrate the procedures used for estimated revenue accounts, both the general ledger account and subsidiary revenue ledger accounts. Assume that the budget estimates revenues as follows:

Estimated revenue—local sources	$ 300,000
Estimated revenue—intermediate sources	200,000
Estimated revenue—state sources	150,000
Estimated revenue—federal sources	250,000
Total estimated revenue	$900,000

The general journal entry to record the estimated revenue is as follows:

Estimated revenue		900,000	
Budgeted fund balance			900,000
To record estimated revenues from sources as follows:			
Local sources	$300,000		
Intermediate sources	200,000		
State sources	150,000		
Federal sources	250,000		
Total estimated revenue	$900,000		

In the general ledger the account appears as follows:

Estimated Revenue	
900,000	

In the subsidiary revenue ledger, the accounts appear as follows:

Estimated Revenue—Local Sources	
300,000	

Estimated Revenue—Intermediate Sources	
200,000	

Estimated Revenue—State Sources	
150,000	

Estimated Revenue—Federal Sources	
250,000	

BUDGETARY ACCOUNTS FOR EXPENDITURES

There also are many expenditures and accounts have to be used to identify the nature of each. The controlling account and subsidiary ledger concept is used for budgetary control of expenditures because the general ledger would be bulky if these individual accounts were all kept there.

Budgetary expenditure accounts make it possible to compare expenditures and encumbrances (commitments) with appropriations at any time during the fiscal period, thereby minimizing the possibility of making expenditures and/or encumbrances in excess of legal limits placed by the appropriations act. Encumbrances are commitments made by placing an order or by making an offer to purchase goods or services. In governmental accounting and accounting for school systems, because of legal restrictions placed by appropriation acts, it is important that the effect of each proposed commitment upon the unencumbered balance of the appropriation be known prior to making the offer or issuing the purchase order. A subsidiary expenditures ledger serves these needs effectively.

Again, to provide this management information immediately, the page format for general ledger accounts is changed, this time by showing three controlling accounts on one page. The three general ledger controlling accounts are: appropriations, expenditures and encumbrances. This page format has the advantage of showing immediately upon posting each transaction, the unencumbered balance of the appropriation. An illustration of the page format for these is as follows:

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE

ACCOUNT TITLE: OFFICE SUPPLIES

Account No.

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
19--										
Jan.	1	To record budget	1						1,000	1,000
	4	To encumber	2	300						700
	8	Record purchase	4		300	250				750
	12	To encumber	6	200						550
	16	Record purchase	7		200	180				570
	19	Cash purchase	9			440				130
	24	To encumber	10	120						10
	31	To close	12		120		870	1,000		–
				620	620	870	870	1,000	1,000	–

A subsidiary expenditures ledger page identifies each expenditure, encumbrance, and appropriation on a page format identical to the page format of these controlling accounts in the general ledger. The accounts to be included in this subsidiary ledger are specified by the appropriations act.

Interim financial statements which compare expenditure and encumbrance transactions to date with appropriations draw the attention of school administrators and the board to the amount that remains available for further obligation or commitment for each purpose within the legal limits placed by the appropriation act. Interim financial statements should be prepared regularly during the fiscal period when effective action can be taken to avoid making expenditures and encumbrances in excess of legal limits and/or to avoid creating either an operating deficit or a fund deficit.

When properly applied, budgetary accounting provides a most effective system of internal accounting and financial control, a system included in the concept of managerial accounting. A major advantage of maintaining budgetary accounts in the general ledger and in subsidiary ledgers is that they provide management information throughout the budget year—when board policy decisions and management actions can be effective. Comparisons can be made between actual revenues realized to date and estimated revenues contained in the budget. If variances exist, i.e., if actual revenue is less than was estimated, the reasons can be determined and action can be taken during the fiscal period when it can produce results. There is no reason for the board or for administrative officers to have to wait until the close of the fiscal period to discover that additional action could have produced additional revenue. Decisions or actions after the close of the fiscal period usually are too late to have any effect.

BUDGETARY ACCOUNTS EXPAND THE FUND ACCOUNT STRUCTURE

The traditional "accounting structure" used in commercial accounting and in the previous chapters is expanded or modified to include budgetary accounts. This expansion of the account structure is identified frequently as the "modified accrual basis." The theory of debits and credits, however, continues to be used. Budgetary accounts are used as follows:

Fund equity accounts and the theory of debits and credits:

Fund balance unappropriated. This is the same account as "fund balance" or "fund equity" used in earlier chapters, but its nature has changed. This account now shows how much fund equity is available for further appropriation by the board of education. A debit balance in this account indicates a fund deficit. The account is increased by credits and decreased by debits.

Budgeted fund balance. This account is used to record the adopted budget. It shows the excess of estimated revenue over appropriations. The account is increased by credits and decreased by debits. A debit balance in this account indicates that the budget's appropriations have exceeded estimated revenue and, as a result, fund equity unappropriated is being used, an action that requires prior approval of the board of education. This is a temporary account which should be used at the end of the fiscal period as the account to which the balance of the revenue and expenditure summary is closed. Then the balance of this account represents the excess of actual revenue over expenditures and encumbrances for the period. It is closed into the fund equity unappropriated account at the end of the fiscal period.

Reserve for encumbrances. This account, in effect, is an appropriation of fund equity which shows the total amount of purchase orders or other commitments that are outstanding. It is credited each time a commitment is made and is debited when the purchase order is cancelled or when it is converted into a liability when the goods or services are received. It is increased by credits and decreased by debits.

Additional revenue and expenditure accounts:

Estimated revenue. This is a controlling account in the fund's general ledger. A subsidiary revenue ledger is needed in which individual accounts show the amounts estimated to become available to the school district from every known source. It is a temporary account and is, therefore, closed into the revenue and expenditure summary account at the end of the fiscal period. It is increased by debits and decreased by credits. The subsidiary revenue ledger account is identical in format to the controlling account in the general ledger. If the controlling account concept is not used, an individual estimated revenue account would be required in the general ledger for each source.

Appropriation. This is a controlling account in the general ledger which records the total amount of all appropriations. It is increased by credits and decreased by debits. It is a temporary account and is closed into the revenue and expenditure summary at the end of the fiscal period. If the controlling account concept is used, a subsidiary appropriations ledger is needed in which an account is maintained to identify by purpose and title the amount that may be used as specified in the appropriation act. The accounts in the subsidiary appropriations ledger are identical in format to the controlling account in the general ledger. If the controlling concept is not used, an individual account would be required in the general ledger to identify by purpose and title the amount that may be used as specified in the appropriation act.

Encumbrances. An encumbrance is a commitment in the form of a purchase order or offer to buy goods or services. It is a controlling account in the general ledger which is increased by debits and decreased by credits. A temporary account, it is closed into the revenue and expenditure summary account at the end of the fiscal period. If it is a controlling account, a subsidiary encumbrances ledger is needed in which accounts are used to identify by purpose and title the amount that is committed by the purchase order or offer. If the controlling account concept is not used, an individual encumbrances account would be needed in the general ledger to identify by purpose and title the amount of each commitment, purchase order or offer.

This expansion of the accounting structure makes governmental accounting and accounting for school systems quite different from commercial accounting.

ILLUSTRATION OF A STATEMENT OF ESTIMATED REVENUES

The following illustration shows the amount of estimated revenue from each source.

NEW SCHOOL DISTRICT
Estimated General Fund Revenue
for Year July 1, 19.... to June 30, 19....

Revenue from local sources:			
Taxes:			
Ad valorem taxes levied by school system	$140,000.00		
Sales and use taxes	114,000.00		
Penalties and interest on taxes	2,841.78	$256,841.78	
Tuition:			
Regular day school tuition	$ 400.00		
Continuing education tuition	33,365.88		
Summer school tuition	1,500.00	35,265.88	
Total revenue from local sources			$292,107,66
Revenue from state sources:			
Grants-in-aid, unrestricted		$128,000.00	
Grants-in-aid, restricted		81,615.00	
Revenue in lieu of taxes		22,782.00	
			232,397.00
Revenue from federal sources:			
Grants-in-aid, unrestricted		$ 8,895.34	
Revenue in lieu of taxes		4,800.00	13,695.34
Total estimated revenue			$538,200.00

BUDGETARY ACCOUNTING ILLUSTRATED

Although a school system will have many more sources of revenue and will make many more appropriations than are in the illustration that follows, only three estimated revenue accounts, three appropriation accounts and the budgeted fund balance account are used in the example. Assume that controlling accounts are not used and that the approved budget contains the following:

In the General Fund:

Estimated revenue from:		
Taxes	$30,000	
Tuition	5,000	
Rentals	5,000	
Total estimated revenues		$40,000
Appropriations:		
Salaries	$28,000	
Supplies	8,000	
Capital outlay-equipment	2,000	
Total appropriations		38,000
Budgeted fund balance		$ 2,000

The following budgetary accounts are needed in the general ledger:

Estimated Revenues: estimated revenue from taxes; estimated revenue from tuition; and estimated revenue from rentals.

Appropriations: appropriation for salaries; appropriation for supplies; and appropriation for capital outlay-equipment.

Budgeted fund balance.

RECORDING THE BUDGET IN THE BUDGETARY ACCOUNTS

The following general journal entries record the budget in the budgetary accounts:

Estimated revenue from taxes	30,000	
Estimated revenue from tuition	5,000	
Estimated revenue from rentals	5,000	
Budgeted fund balance		40,000
To record estimated revenue for year, July 1, 19-- to June 30, 19--.		
Budgeted fund balance	38,000	
Appropriation: salaries		28,000
Appropriation: supplies		8,000
Appropriation: capital outlay-equipment		2,000
To record appropriations for year, July 1, 19-- to June 30, 19--.		

When posted, the general ledger which does not include controlling accounts in this example would appear as follows:

REVENUE FROM TAXES

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
19--				DR.	CR.	DR.	CR.	
July	1		J-1	30,000				30,000

REVENUE FROM TUITION

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
19--				DR.	CR.	DR.	CR.	
July	1		J-1	5,000				5,000

REVENUE FROM RENTALS

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
19--				DR.	CR.	DR.	CR.	
July	1		J-1	5,000				5,000

SALARIES

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
19-- July	1		J-1						28,000	28,000

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SUPPLIES

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
19-- July	1		J-1						8,000	8,000

CAPITAL OUTLAY EQUIPMENT

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
19-- July	1		J-1						2,000	2,000

BUDGETED FUND BALANCE

19--					19--				
July	1		J-1	38,000	July	1		J-1	40,000

RECORDING REVISIONS IN THE BUDGET

If estimated revenue and appropriations for the year are carefully calculated and the conditions assumed when making the budget actually develop, the budgetary accounts will remain unchanged until the end of the accounting period. If, however, serious changes do occur, revisions in the budget can be made by the board and recorded in the budgetary accounts. The four following conditions could develop, any one of which would require revisions to the budget and in the budgetary accounts:

1. Estimated revenue, as recorded, does not contain a provision for an unexpected but now anticipated amount of revenue from an unrestricted grant-in-aid from the state. The entry to record such additional estimated revenue would be:

Estimated revenue from state grant-in-aid
    Budgeted fund balance
  To record a revision in the budgetary accounts which reflects additional estimated revenue from state grant-in-aid.

2. Estimated revenue, as recorded, is found to be in excess of all possible sources of revenue. Therefore, to avoid an operating deficit or a fund deficit recognition of this unforeseen event should be made if it is material in amount.

Assume that the amount originally estimated as revenue from taxes is materially in excess of the amount that can be realized. The entry to record such a revision in the budget would be:

Budgeted fund balance
    Estimated revenue from taxes
  To record a budget revision which reflect a decrease in the amount of revenue estimated from taxes.

3. Appropriations, as recorded, do not provide for unexpected property destruction caused by a flood, for example, and additional expenditures would be necessary to replace the assets destroyed. A supplementary appropriation authorizing such an additional expenditure would be recorded in the budgetary accounts as follows:

Budgeted fund balance
    Appropriation, capital outlay
  To record a special appropriation for capital outlay to replace assets destroyed by a flood.

4. Appropriations, as recorded, are found to be in excess of required expenditures in the case of capital outlay, for example. It would then be desirable to reduce the appropriation through the following entry affecting the budgetary accounts:

Appropriation, capital outlay
    Budgeted fund balance
  To record a budget revision to reduce the amount appropriated for capital outlay.

Theoretically, the budget should not have to be changed, but in the event circumstances warrant a change by the board of education, the change should be and can be made and recorded easily in the budgetary accounts by the use of the theory of debits and credits.

THE ENCUMBRANCE SYSTEM—A MANAGEMENT ACCOUNTING TECHNIQUE

The encumbrance system is a most effective management accounting technique found most useful in the general fund, special revenue funds, capital projects funds and debt service funds by school systems to avoid making expenditures or commitments in excess of an appropriation. Since the appropriation is the amount authorized by the board to be used for a specific purpose, it is important that expenditures and commitments for that purpose be kept within that amount. Otherwise, it would be an unauthorized or an illegal expenditure. During the accounting period, comparisons between expenditures plus commitments to date and appropriations indicate the amount of an appropriation that remains available for additional expenditure or commitment.

It is urgent that a periodic review be made of all outstanding encumbrance documents to determine that they are still valid. If purchase orders have been cancelled, the encumbrance accounts should be corrected. Otherwise, budgetary accounting control is lost.

Encumbrances have been defined as obligations or commitments in the form of purchase orders, contracts, or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved prior to actual expenditure for that purpose. The general journal entry to record issuance of a purchase order or other form of commitment is as follows:

Encumbrances	10,000	
Reserve for encumbrances		10,000
To record issuance of a purchase order.		

When a disbursement is made or when a contractual liability is created by receipt of goods or services for which the purchase order was issued, two entries are needed. One entry debits the expenditure account and either cash or accounts payable is credited for the actual purchase price. At the same time, the reserve for encumbrances account is debited and the encumbrances account is credited for the amount originally encumbered because the encumbrance originally recorded for that purpose ceases to be necessary.

ILLUSTRATION OF THE USE OF THE ENCUMBRANCE SYSTEM

Assume that the appropriation act authorized expenditure of $50,000 for capital outlay. If $50,000 is expended immediately, additional expenditures would be unauthorized unless the appropriation act is amended. Assume, however, that administrative officers estimate that approximately $30,000 is required to purchase a particular asset. This would leave $20,000 unencumbered and available to be used for purchase of other fixed assets in the future. To prevent over-expenditure for capital outlay, an encumbrance of $30,000 is recorded at the time of estimating the costs and issuing a commitment in the form of an offer to purchase the fixed asset. In many cases, a long period of time may pass between the time of placing an order and delivery of the goods or services. The entry recording the encumbrance is made when the purchase order is issued—prior to incurring an actual liability and prior to payment. The encumbrance entry appears as follows:

Encumbrances-capital outlay	30,000	
Reserve for encumbrances		30,000
To record encumbrances sufficient to purchase assets estimated to cost $30,000.		

When title to the property is transferred to the school district and the actual cost of the asset is determined, an expenditure account is debited and a liability account is credited. At the same time, an entry is made to reverse the encumbrance entry because it is no longer needed. Assume that the actual costs of the asset amounted to $28,000. The two entries required are as follows:

Reserve for encumbrances	30,000	
Encumbrances-capital outlay		30,000
To reverse the entry originally encumbering $30,000 for capital outlay.		
Expenditure-capital outlay	28,000	
Accounts payable		28,000
To record the liability incurred by contracts for capital outlay.		

Entries recording encumbrances are made at the time estimates of costs to acquire goods or services are made or when commitments to purchase (purchase orders) are issued. The entries reversing encumbrances are made when the actual liability is incurred or when payment is made. Therefore, if financial statements are prepared during the fiscal period, the encumbrances account will show the amount of encumbrances outstanding or unliquidated.

INTERIM FINANCIAL STATEMENTS

Interim financial statements prepared during the fiscal period for information and guidance of the board and its administrative officers should include: (a) an interim statement of revenue; (b) an interim statement comparing expenditures and encumbrances with appropriations; and (c) an interim balance sheet. These statements are prepared from the accounts in the general ledger with supporting schedules prepared from the subsidiary revenue ledger and the subsidiary expenditures ledger. An illustration of these financial statements follows:

NEW SCHOOL DISTRICT
General Fund
Interim Statement of Revenue
For eleven-month period ending June 30, 19--

Exhibit 1

Revenue from:	Estimated Revenue	Actual Revenue	Unrealized Revenue
Taxes	$30,000	$28,000	$2,000
Tuition	500	300	200
State grant-in-aid	500	550	(50)
Total	$31,000	$28,850	$2,150

NEW SCHOOL DISTRICT
General Fund
Interim Statement Comparing
Expenditures and Encumbrances with Appropriations
For eleven-month period ending June 30, 19--

Exhibit 2

	Appropriations	Expenditures	Encumbrances	Unencumbered Balance
Supplies	$ 15,000	$ 14,800	$200	—
Salaries	65,000	64,050	750	$200
Capital Outlay	50,000	50,000	-0-	—
Total	$130,000	$128,850	$950	$200

NEW SCHOOL DISTRICT
General Fund
Interim Balance Sheet
June 30, 19--

Exhibit 3

Assets and Resources

Assets:			
Cash			$ 20,000
Taxes receivable, 19--		$145,000	
Less estimated uncollectible taxes, 19--		15,000	130,000
Due from Special Revenue Fund			5,000
Advance to Internal Services Fund			15,000
Resources:			
Estimated revenue		$231,000	
Less revenue		228,850	
Unrealized revenue			2,150
Total Assets and Resources			$172,150

Liabilities and Fund Equity

Liabilities:			
Accounts payable		$ 5,000	
Due to Debt Service Fund		13,000	
Deferred revenue from taxes		90,000	
Total Liabilities			$108,000
Fund Equity:			
Appropriated:			
Appropriations		$130,000	
Less: Expenditures	$128,850		
Encumbrances	950	129,800	
Unencumbered balance		200	
Reserve for encumbrances		950	
Reserve for Advance to Internal Services Fund		15,000	
Total appropriated fund equity		$ 16,150	
Unappropriated:			
Fund equity unappropriated		48,000	
Total Fund Equity			64,150
Total Liabilities and Fund Equity			$172,150

REVENUE ACCOUNTS IN INTERIM FINANCIAL STATEMENTS

When interim financial statements are prepared during the fiscal period, it is done without closing either the budgetary or actual revenue and expenditure accounts. The interim statement of revenue shows the total amount of estimated revenue as well as the total amount of revenue realized to date. The difference represents revenue that may be available to the school district but not realized at the date of the financial statements. The interim statement of revenue provides the most effective way to bring variances between estimated and actual revenue transactions to the attention of administrative officers because it can serve as a basis for recommendations of appropriate action to be taken by the board of education.

EXPENDITURE ACCOUNTS IN INTERIM FINANCIAL STATEMENTS

The interim statement comparing expenditures and encumbrances with appropriations is taken from the subsidiary expenditures ledger, the totals of which agree with balances of the controlling accounts in the general ledger. The difference between actual expenditures plus encumbrances and appropriations represents the unencumbered or unobligated balance of the appropriation, a figure which is important to know prior to incurring further indebtedness. Schedules containing expenditures, encumbrances and appropriations from each page of the subsidiary expenditures ledger supplement the interim financial statements and provide administrative officers with detailed management information about the status of each budgeted appropriation. These supporting schedules can serve as a basis for management recommendations for decisions by the board of education.

THE INTERIM BALANCE SHEET

The interim balance sheet for the general fund of a school district is prepared for management purposes and is different from balance sheets prepared for profit-making business concerns. In addition to showing asset and liability accounts, the school district's interim balance sheet shows its financial resources, i.e. its estimated revenue less actual revenue realized to date, and it shows its appropriation, expenditure and encumbrances accounts in the fund equity section where actual expenditures and encumbrances are subtracted from the appropriations. The reserve for encumbrances account appears in the fund equity section of the balance sheet as an appropriation of fund equity.

ILLUSTRATIVE TRANSACTIONS DURING FISCAL PERIOD

A. To illustrate the use of a budgeted fund balance account during the fiscal period, assume a post-closing trial balance at July 1, 19-0, as follows:

Cash	$100,000	
Accounts payable		$ 80,000
Unappropriated fund equity		20,000
	$100,000	$100,000

Without distinguishing among accounts for various kinds of assets, liabilities, sources of revenue, and purposes of appropriations and related expenditures and encumbrances, assume the use of controlling accounts only. The following transactions occur:

B. The budget was adopted as follows: estimated revenue, $785,000, and appropriations, $780,000. The entry is recorded as follows:

Estimated revenue	785,000	
Appropriations		780,000
Budgeted fund balance		5,000
To record budget as adopted.		

1. The actual revenue realized by cash collections during the year amounted to $783,000 and is recorded as follows:

Cash	783,000	
Revenue		783,000
To record actual revenue realized during year.		

2 . Paid outstanding liabilities as of July 1, 19-0.

Accounts payable	80,000	
Cash		80,000
To record payment of July 1, 19-0, liabilities.		

3. Total expenditures resulting in liabilities incurred during the year amounted to $750,000.

Expenditures	750,000	
Accounts payable		750,000
To record liabilities incurred as a result of making expenditures.		

4. Purchase orders and other commitments issued during the year which remained on order at the end of the year amounted to $29,000.

Encumbrances	29,000	
Reserve for encumbrances		29,000
To record issuance of purchase orders and other forms of commitments during year.		

5. Accounts payable created during the year and paid were $700,000.

Accounts payable	700,000	
Cash		700,000
To record payment of liabilities incurred during year.		

The accounts in the general ledger would appear as follows:

CASH

A-	100,000	2-	80,000
1-	783,000	5-	700,000

ACCOUNTS PAYABLE

2-	80,000	A-	80,000
5-	700,000	3-	750,000

UNAPPROPRIATED FUND EQUITY

		A-	20,000

BUDGETED FUND BALANCE

		B-	5,000

RESERVE FOR ENCUMBRANCES

		4-	29,000

REVENUE. CONTROL

DATE		EXPLANATION	P R	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
				DR	CR	DR	CR	
			B	785,000				785,000
			1				783,000	2,000

EXPENDITURE. CONTROL

DATE		EXPLANATION	P R	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
			B						780,000	780,000
			3			750,000				30,000
			4	29,000						1,000

A trial balance at this point would appear as follows:

Cash	103,000	
Accounts payable		50,000
Unappropriated fund equity		20,000
Budgeted fund balance		5,000
Reserve for encumbrances		29,000
Estimated revenue	785,000	
Revenue		783,000
Appropriations		780,000
Expenditures	750,000	
Encumbrances	29,000	
	1,667,000	1,667,000

C. At the end of the fiscal period, after adjusting entries have been made and posted to the general ledger, closing entries are necessary. They are:

Revenue	783,000	
Revenue and expenditure summary	2,000	
Estimated revenue		785,000
To close the revenue accounts.		
Appropriations	780,000	
Expenditures		750,000
Encumbrances		29,000
Revenue and expenditure summary		1,000
To close appropriations, expenditures and encumbrances accounts.		
Budgeted fund balance	1,000	
Revenue and expenditure summary		1,000
To close the revenue and expenditure summary account.		

At this point the budgeted fund balance account would appear, when posted, with a $4,000 credit balance. The balance of the account has changed from the budgeted fund balance of $5,000 as a result of variances between estimated and actual revenue of $2,000 and variances between the appropriation, expenditures, and encumbrances accounts of $1,000. The balance of this account now represents the excess of actual revenue over total expenditures and encumbrances as shown by the statement of revenue, expenditures and encumbrances as follows:

Revenue		$783,000
Expenditures	$750,000	
Encumbrances	29,000	779,000
Excess revenue over expenditures and encumbrances		$ 4,000

The final entry necessary to close all accounts affected by the budget is as follows:

Budgeted fund balance	4,000	
Unappropriated fund equity		4,000
To close the budgeted fund balance account.		

At this point, the accounts would be closed, ruled, with balances brought forward to the new accounting period as shown in the following:

CASH

A-	100,000	2-	80,000
1-	783,000	5-	700,000
		Bal	103,000
	883,000		883,000
Bal	103,000		

ACCOUNTS PAYABLE

2-	80,000	A-	80,000
5-	700,000	3-	750,000
Bal	50,000		
	750,000		750,000
		Bal	50,000

UNAPPROPRIATED FUND EQUITY

Bal	24,000	A-	20,000
		C-	4,000
			24,000
	24,000	Bal	24,000

BUDGETED FUND BALANCE

C-	1,000	B-	5,000
C-	4,000		
	5,000		5,000

RESERVE FOR ENCUMBRANCES

		4-	29,000

REVENUE AND EXPENDITURE SUMMARY

C-	2,000	C-	1,000
		C-	1,000
	2,000		2,000

REVENUE, CONTROL

DATE	EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
			DR.	CR.	DR.	CR.	
		B.	785,000				785,000
		1				783,000	2,000
		C		785,000	783,000		-0-
			785,000	785,000	783,000	783,000	-0-

EXPENDITURE, CONTROL

DATE	EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
		B						780,000	780,000
		3			750,000				30,000
		4	29,000						1,000
		C		29,000		750,000	780,000		-0-
			29,000	29,000	750,000	750,000	780,000	780,000	-0-

ADVANTAGES OF USE OF BUDGETED FUND BALANCE ACCOUNT

Observe the advantages of the use of the budgeted fund balance account. First, it clearly presents the amount of estimated revenue over appropriations throughout the fiscal period. The unappropriated fund equity account remains throughout the fiscal period at its balance at the beginning of the year, clearly separated from being confused with budgetary transactions.

By having the budgeted fund balance account appear, the board of education has a specific measure of the amount remaining that it may appropriate out of the current year's excess estimated revenue over appropriations. If appropriations exceed estimated revenue at any point, the board is aware of a current operating deficit and its having to use a part of fund equity unappropriated. In most school districts, such a revision in the budget can be authorized only by action of the board. Changes in the budget during the fiscal period are made directly to the budgeted fund balance account, leaving the balance of the unappropriated fund equity account intact. Once the budgeted fund balance is absorbed, further appropriations are limited to the amount in the fund equity unappropriated. Otherwise a fund deficit occurs. Fund equity unappropriated remains a separate figure and can be used for corrections of prior years' errors, if any are discovered.

Observe that the reserve for encumbrances remains as an appropriation of fund equity and discloses the commitments and/or encumbrances that are outstanding at the close of the fiscal period.

BUDGETARY ACCOUNTS AT THE END OF THE FISCAL PERIOD

Budgetary accounts, other than the reserve for encumbrances, are temporary accounts, since they record estimates of revenue and appropriations applicable to one fiscal period. Therefore, at the end of the accounting period they are closed along with actual revenue, expenditure and encumbrance accounts. The following illustrates the closing process:

Assume that the adjusted trial balance of the general fund contained the following accounts: (Only those accounts used in closing entries are included in the illustration.)

Fund equity unappropriated		4,000
Budgeted fund balance		2,000
Reserve for encumbrances		700
Estimated revenue	100,000	
Revenue		97,500
Encumbrances	700	
Expenditures	96,500	
Appropriations		98,000

The accounts are presented in the general ledger as follows:

FUND EQUITY UNAPPROPRIATED

					19--				
					Jan.	1	Beginning balance	✓	40,000

RESERVE FOR ENCUMBRANCES

					19--				
					Nov.	3		J7	700

BUDGETED FUND BALANCE

					19--				
					Jan.	1	Budget	J1	2,000

REVENUE

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
19--				DR.	CR.	DR.	CR.	
Jan.	1		J-1	100,000				100,000
Feb.	1		J-3				97,500	2,500

EXPENDITURES

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION	UNENCUMBERED BALANCE
19--									
Jan.	1	Budget	J1					98,000	98,000
Aug.	4		J5			96,500			1,500
Nov.	3		J7	700					800

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Closing entries would be recorded in general journal form as follows:

19--			
Dec. 31	Revenue	97,500	
	Revenue and expenditure summary	2,500	
	Estimated revenue		100,000
	To close revenue accounts at end of year.		
31	Appropriations	98,000	
	Expenditures		96,500
	Encumbrances		700
	Revenue and expenditure summary		800
	To close expenditure accounts at end of year.		
31	Budgeted fund balance	1,700	
	Revenue and expenditure summary		1,700
	To close the revenue and expenditure summary account at end of year.		

When posted to the general ledger accounts, the accounts are ruled at the end of the period and at this point they would appear as follows:

FUND EQUITY UNAPPROPRIATED

19--					19--				
Dec.	31	Ending balance	✓	4,300	Jan.	1	Beginning balance	✓	4,000
					Dec.	31		J8	300
				4,300					4,300
					19--				
					Jan.	1	Beginning balance	✓	4,300

RESERVE FOR ENCUMBRANCES

					19--				
					Nov.	3		J7	700

BUDGETED FUND BALANCE

19--					19--				
Dec.	31		J8	1,700	Jan.	1	Budget	J1	2,000
	31		J8	300					
				2,000					2,000

REVENUE AND EXPENDITURE SUMMARY

19--					19--				
Dec.	31		J8	2,500	Dec.	31		J8	800
						31		J8	1,700
				2,500					2,500

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REVENUE, CONTROL

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
19--								
Jan.	1		J-1	100,000				100,000
Feb.	1		J-3				97,500	2,500
Dec.	31	Closing entries	J-8		100,000	97,500		-0-
				100,000	100,000	97,500	97,500	-0-

EXPENDITURES

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
19--										
Jan.	1	Budget	J1						98,000	98,000
Aug.	4		J5			96,500				1,500
Nov.	3		J7	700						800
Dec.	31	Closing entries	J8		700		96,500	98,000		-0-
				700	700	96,500	96,500	98,000	98,000	-0-

ENCUMBRANCE ACCOUNTS AT THE END OF THE FISCAL PERIOD

If a balance representing unliquidated encumbrances exists at the end of the accounting period, it is customary that the encumbrances accounts be closed to the revenue and expenditure summary account. The entry closing the encumbrances accounts does not close the reserve for encumbrances account, however.

Case 1. In some cases, the unencumbered balances of appropriations cease to be effective subsequent to the close of the accounting period. If this is the case, all outstanding purchase orders and other commitments could be cancelled and the reserve for encumbrances could be closed into the fund equity unappropriated account.

Case 2. The reserve for encumbrances account may be carried over to the following fiscal period. If this is the case, the reserve for encumbrances account, at the end of the accounting period, is a balance sheet account and requires the same procedures for balancing, ruling, and bringing the balance forward to the subsequent accounting period as is required for other balance sheet accounts. It would appear in the fund equity section of the balance sheet as an appropriation of fund equity. Statutes, rules of state departments, or decisions of the board may govern how the reserve for encumbrances is used during the new accounting period. Two methods are available which are:

Method 1. If encumbrances outstanding at the end of the prior year were cancelled, new purchase orders or commitments are to be issued to secure the goods or services. For these goods or services to be recorded as expenditures of the new year without revising the budget approved for the new year, the following entries are made:

19--			
Jan. 1	Reserve for encumbrances	12,000	
	Fund equity unappropriated		12,000
	To close the reserve for encumbrances account as purchase orders issued and outstanding at the close of the prior year were cancelled, but the goods or services are to be secured.		
1	Fund equity unappropriated	12,000	
	Appropriations		12,000
	To record appropriation to purchase of goods which were ordered during prior year.		
1	Encumbrances	12,000	
	Reserve for encumbrances		12,000
	To record issuance of new commitments for goods and services ordered during prior year.		
23	Reserve for encumbrances	12,000	
	Encumbrances		12,000
	To reverse encumbrances when goods or services are received.		
23	Expenditures	11,800	
	Vouchers payable		11,800
	To record receipt of goods.		

The accounts would appear as follows:

RESERVE FOR ENCUMBRANCES

19-1		19-0	
Jan. 1	12,000	Dec. 31 Bal.	12,000
		19-1	
23	12,000	Jan. 1	12,000

FUND EQUITY UNAPPROPRIATED

19-1		19-1	
Jan. 1	12,000	Jan. 1	12,000

EXPENDITURE, CONTROL

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
19-1										
Jan.	1		J1						12,000	12,000
	1		J1	12,000						-0-
	23		J3		12,000	11,800				200

Method 2. The purchase orders of the prior year were not cancelled but the budget for the new year is revised to authorize expenditures to be made and charged to the current year's appropriations.

19--			
Jan. 1	Reserve for encumbrances	12,000	
	Fund equity unappropriated		12,000
	To transfer the reserve for encumbrances for prior year's out standing purchase orders to fund equity to be included in current year's budget appropriations.		

This amount would be included in the entry recording the budget adopted for the current year, whatever that amount might be, as follows:

1	Fund equity unappropriated	112,000	
	Appropriations		112,000
	To record budget appropriations for 19--.		

To record outstanding purchase orders brought over from the prior year:

1	Encumbrances	12,000	
	Reserve for encumbrances		12,000
	To record encumbrances which were outstanding at the end of the prior year.		

The entries to record the expenditure when the goods or services are received are:

23	Reserve for encumbrances	12,000	
	Expenditures	11,000	
	Encumbrances		12,000
	Vouchers payable		11,000
	To reverse the reserve and record the expenditure.		

The accounts would appear as follows:

RESERVE FOR ENCUMBRANCES

19-1		19-0	
Jan. 1	12,000	Dec. 31 Bal.	12,000
		19-1	
23	12,000	Jan. 1	12,000

FUND EQUITY UNAPPROPRIATED

19-1		19-1	
Jan. 1	12,000	Jan. 1	12,000

EXPENDITURE, CONTROL

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
19-1 Jan	1	Budget	J1						112,000	112,000
	1		J1	12,000						100,000
	23		J3		12,000	11,000				101,000

ALTERNATIVE TO THE BUDGETED FUND BALANCE ACCOUNT

In previous illustrations, the excess of estimated revenue over appropriations was credited to the budgeted fund balance account. Some authors in the field of governmental accounting credit fund equity unappropriated or unreserved and this account becomes a mixed account. It represents the excess of the fund's assets over liabilities plus a budgetary element—the excess of estimated revenue over appropriations. As a result, it is difficult to know when the current year's appropriations exceeds estimated revenues, if that happens, and it is difficult to know when the fund equity unappropriated account begins to absorb a current operating deficit. Furthermore, when, in addition to budgetary transactions, errors of prior years are also corrected through this account, the fund equity unappropriated account becomes more difficult to analyze and understand.

THE FUND EQUITY UNAPPROPRIATED (UNRESERVED) ACCOUNT

The words "unappropriated" and "unreserved" are used synonymously in the text. The principal way of increasing the fund equity unappropriated account is by having excess revenue over expenditures for a fiscal period. A credit balance in this account accumulates over the years as a result of having excess revenues over expenditures each year. On the other hand, expenditures in excess of revenue can create a fund deficit. A deficit exists when a debit balance is recorded in the fund equity unappropriated account, or when total liabilities of a fund exceed its total assets.

To avoid the possibility of creating a fund deficit, it is a wise management practice to permit a reasonable amount of revenue over expenditures each year to accumulate as fund equity unappropriated. The amount that is deemed to be reasonable is a matter of judgment on the part of the board of education.

APPROPRIATIONS OF FUND EQUITY

The terms "appropriate" and "reserve" are synonymous. It may be wise to appropriate or reserve a portion of the fund equity, unappropriated, to indicate that current assets of the general fund may have been temporarily converted by action of the board into assets that may not be immediately available for use by the general fund. For instance, the board of education may authorize an advance to be made from the general fund to establish a central stores fund. Two entries would be made on the books of the general fund to record the advance as follows:

Advance to central stores fund	10,000	
Cash		10,000
To record a cash advance to the central stores fund, an amount that is to be retained intact by the central stores fund until the fund is dissolved.		

This entry changes the nature of the assets of the general fund from being a current asset and is a long-term claim against the central stores fund until it is ultimately collected. Because of the nature of this account, advance to central stores fund, a portion of fund equity, unappropriated, should be set aside and reported as an appropriation of fund equity until the purpose of the advance has been completed. The second entry required would be:

Fund equity, unappropriated	10,000	
Reserve for advance to central stores fund		10,000
To appropriate a portion of fund equity in an amount equal to the advance to the central stores fund.		

When amounts have been appropriated by the board for any purpose, the fund balance is necessarily shown in two main divisions. The following chart indicates how fund equity is classified:

Fund Balance
- Fund Equity Appropriated
  - Reserve for encumbrances
  - Reserve for advance to cafeteria fund
  - Reserve for advance to central stores fund
  - Reserve for petty cash
- Fund Equity Unappropriated

When the purpose for which fund equity was appropriated has been completed, the reserve is no longer needed. Therefore, it should be returned to the fund equity, unappropriated, account. For example, assume that the $10,000 advance to the central stores fund is returned to the general fund. The entries required in the general fund are as follows:

Cash	10,000	
Advance to central stores fund		10,000
To record collection of the advance made to the central stores fund.		
Reserve for advance to central stores fund	10,000	
Fund equity, unappropriated		10,000
To return the amount appropriated for advance to the central stores fund to fund equity, unappropriated.		

The fund equity section of the balance sheet shows both the unappropriated fund equity as well as the appropriations of fund equity that continue to be needed at the balance sheet date. An illustration is as follows:

Fund equity section of an Interim Balance Sheet:

FUND BALANCE

Fund balance appropriated:				
Reserve for:				
Advance to Food Services Fund	$ 6,000			
Advance to Maintenance Fund	12,000	$18,000		
Budgeted Fund Balance		8,000		
Total fund balance appropriated			$26,000	
Fund balance unappropriated:				
Fund equity unappropriated			16,097	
Total fund balance				42,097
Total Liabilities and Fund Balance				$186,824

Fund equity section of a year-end Balance Sheet:

FUND BALANCE

Fund equity unappropriated:			
Fund equity unappropriated		$16,097	
Fund balance appropriated:			
Reserve for Advance to:			
Food services fund	$ 6,000		
Central Maintenance Fund	12,000		
Total appropriated		18,000	
Total fund equity			34,097
Total Liabilities and Fund Balance			$251,965

When appropriations of fund equity appear on the balance sheet, each of the appropriated fund equity accounts should be analyzed as part of the statement of changes in fund equity. GASB's Statement 1 includes the analysis of fund equity as a part of the operating statement, i.e., an addition to the statement of revenue and expenditures. When combined, the statement can be long because many things can happen to fund equity during a fiscal period as shown by the following statement of changes in fund equity:

NEW SCHOOL DISTRICT
General Fund
Statement of Changes in Fund Equity
For the year ended July 31, 19--

Exhibit C

Fund equity, unappropriated:			
Unappropriated balance, August 1, 19--			$35,000
Corrections applicable to prior year:			
Additions:			
Prepaid insurance omission	$ 3,800		
Payment of account payable recorded as an expenditure	10,000	$13,800	
Deductions:			
Revision in amount of estimated uncollectible taxes, 19--		7,650	6,150
Adjusted balance, July 31, 19--			$41,150
Add:			
Excess revenue over expenditures, Exhibit B			3,270
Fund equity before appropriation changes			$44,420
Appropriations from fund equity:			
Reserve for Advance to School Food Services Fund		$33,323	
Return of Appropriations to fund equity:			
Reserve for Advance to Central Stores Fund		5,000	28,323
Fund equity, unappropriated, July 31, 19--			$16,097
Fund equity, appropriated:			
Reserve for encumbrances, August 1, 19--		$23,200	
Net increase during year		500	
Reserve for encumbrances, July 31, 19--		$23,700	
Additions to Reserve for advance to School Food Services		33,323	
Reserve for Advance to Central Stores Fund, balance August 1, 19--	$9,000		
Return of appropriation during year	5,000	4,000	
Fund equity appropriated, July 31, 19--			61,023
Total fund equity, July 31, 19--			$77,120

ALLOTMENTS OF APPROPRIATIONS

An additional management technique can be used in those cases where it is important for expenditures to be made at a rather constant level throughout a fiscal period. This technique is referred to as an allotment system. A school system frequently faces the practical problem of not having enough cash available at the beginning of the fiscal period to pay all expenditures forecast for a year. Therefore, allotting portions of an appropriation to cover expenditures at certain intervals during the year is often advisable. Having cash available to pay invoices within discount periods can provide considerable savings.

The following illustrates the minor modifications of budgetary processes necessary to provide for allotments of appropriations. Assume that a budget is adopted in which appropriations of $100,000 are authorized and that the appropriation is to be allotted each calendar quarter. The following entry is made:

A.	Fund balance, unappropriated	100,000	
	Unallotted appropriations		100,000
	To record the budget approved to be allotted on a quarterly basis.		

At the beginning of the first quarter, the following entry to record the first allotment would be:

B.	Unallotted appropriations	25,000	
	Allotments		25,000
	To record the first quarter's appropriation allotment.		

The accounts affected would appear as follows:

FUND BALANCE

A. 100,000	

UNALLOTTED APPROPRIATIONS

B. 25,000	A. 100,000

EXPENDITURE—CONTROL

DATE	EXPLANATION		ENCUMBRANCES	EXPENDITURES	ALLOTMENTS	UNENCUMBERED BALANCE
		B			25,000	25,000

Assume further that the following events occurred during the first quarter of the year:

		Commitments Issued	Resulting in Expenditures
C.	Issued purchase order	$12,000	
	Received goods and invoice		$12,000
D.	Issued purchase orders	12,000	
	Received goods and invoice		12,000

At the beginning of the second quarter, the following entry would be made:

E.	Unallotted appropriations	25,000	
	Allotments		25,000
	To record second quarter's appropriation allotment.		

The accounts affected would appear as follows:

FUND BALANCE

A.	100,000		

UNALLOTTED APPROPRIATIONS

B.	25,000	A.	100,000
E.	25,000		

EXPENDITURES – CONTROL

DATE				ENCUMBRANCES		EXPENDITURES		ALLOTMENTS		UNENCUMBERED BALANCE
			B						25,000	25,000
			C	12,000						13,000
					12,000	12,000				13,000
			D	12,000						1,000
					12,000	12,000				1,000
			E						25,000	26,000

Assume further that the following events occurred during the second quarter of the fiscal year:

		Commitments Issued	Resulting in Expenditures
F.	Cash purchase without issuing commitments	---	$10,000
G.	Unliquidated encumbrances	$8,000	---

The accounts affected would appear as follows:

Fund Balance

A.	100,000		

Unallotted Appropriations

B.	25,000	A.	100,000
E.	25,000		

EXPENDITURE – CONTROL

DATE				ENCUMBRANCES		EXPENDITURES		ALLOTMENTS		UNENCUMBERED BALANCE
			B						25,000	25,000
			C	12,000						13,000
					12,000	12,000				13,000
			D	12,000						1,000
					12,000	12,000				1,000
			E						25,000	26,000
			F			10,000				16,000
			G	8,000						8,000

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An interim balance sheet's assets and resources section prepared at this point during the second quarter would appear as follows:

Unallotted appropriations			$100,000	
Less: allotments			50,000	
Balance, unallotted appropriations			$ 50,000	
Allotments		$50,000		
Less: encumbrances	$ 8,000			
Expenditures	34,000	42,000		
Balance, unencumbered allotments			8,000	$58,000

Chapter 8
Budgetary Accounts

QUESTIONS

8-1. What does the budget include and what is the purpose of a budget prepared for the school system?

8-2. What is an appropriation and how do appropriations affect the tax rate?

8-3. Why is the "adopted" budget important to school officials?

8-4. Discuss briefly four steps into which budgetary procedures may be divided.

8-5. What is the purpose of the budget calendar?

8-6. What is the major purpose and advantage of maintaining budgetary accounts in a school system's general ledger?

8-7. What is the advantage of having each organizational unit within the school system prepare its own estimates of supplies for the year as compared to having one person or a small group of persons prepare estimates for the entire school system?

8-8. How are expenditure accounts closed? What purpose is served by such a procedure?

8-9. Assume that estimated revenues materially exceed the tax levy and all other anticipated revenue for the year, what action should be taken by the board of education? What entry and/ or entries should be made and what is the effect?

8-10. Illustrate the closing entries for the revenue from taxes account, assuming that estimated revenue from taxes exceeded the tax levy.

8-11. Can financial statements for a school system's general fund be prepared during the budget period without closing either the actual or budgetary revenue and expenditure accounts? If so, illustrate how these accounts would be shown on the interim financial statements.

8-12. What are encumbrances and how are they used in financial administration of a school system?

8-13. What is the purpose of the reserve for encumbrances account?

8-14. What happens to the reserve for encumbrances account at the end of the fiscal period during which it was created?

8-15. If encumbrance accounts have been closed at the end of a fiscal period, what action is necessary at the beginning of the new fiscal period to appropriate an amount from fund equity to cover the outstanding commitments? What entries are necessary (a) to record the appropriation, (b) to record the fact that the commitments are outstanding, and (c) to record the expenditure when the goods or services are received?

8-16. If the appropriation for a year lapses and all outstanding purchase orders are cancelled, what happens to the reserve for encumbrances account? What entry is made?

8-17. What entries are made to record a loan from the general fund to the central maintenance fund, an internal services fund, for a five-year period? What entries are made in the general fund at the end of the five-year period when the money is returned from the central maintenance fund?

CASES AND PROBLEMS

The following account titles and account numbers will be used in the problems and cases of chapter 8:

Assets and Resources:	
Cash	101
Taxes receivable, current year	110
Estimated uncollectible taxes, current year	111
Taxes receivable, prior year	114
Estimated uncollectible taxes, prior year	115
Loans receivable	122
Estimated revenues	301
Revenues	302
Liabilities:	
Accounts payable	402
Due to agency fund, payroll	410

Appropriation:		
Appropriations		601
Expenditures		602
Encumbrances		603
Fund Equity		
General fund balance, unappropriated		704
Budgeted fund balance		706
Revenue and expenditure summary		708
Reserve for encumbrances		709
Subsidiary Revenue Ledger Accounts:		
Revenue from local sources:	1000	
Ad valorem taxes		1110
Sales and use taxes		1130
Penalties and interest on taxes		1190
Interest on investments		1510
Revenue from state sources:	3000	
Unrestricted grants-in-aid		3110
Subsidiary Expenditures Ledger Accounts:		
By Object:		
Salaries		100
Employee benefits		200
Public utilities services		321
Repairs and maintenance services		323
By Function:		
Instruction		1000
Supporting services		2000
Community services		3000

8-1. The Lighthouse School System adopted the following fund budget for the school year beginning July 1, 19--:

301	Estimated revenues:			
1000	From local sources:			
1110	Ad valorem taxes	$56,000		
1510	Interest on investments	4,000	$60,000	
3000	From state sources:			
3110	Unrestricted grants-in-aid		40,000	$100,000
601	Estimated expenditures:			
100	Salaries		$80,000	
200	Employee benefits		8,000	
321	Public utilities services		2,000	
323	Repairs and maintenance services		7,000	97,000
706	Budgeted fund balance			$ 3,000

Account balances in the general fund's ledger as of July 1, 19-- are:

101	Cash	$ 40,000		
114	Taxes receivable, prior year		16,000	
115	Estimated uncollectible taxes, prior year			$ 6,000
122	Loans receivable		100,000	
402	Accounts payable			60,000
410	Due to Agency Fund, payroll			20,000
704	Fund balance, unappropriated			6,000
709	Reserve for encumbrances			64,000
			$156,000	$156,000

The following transactions were completed during the year:

A. The school system assessed and levied an ad valorem tax in the amount of $60,000 of which $6,000 was estimated to be uncollectible.
B. Payment of $28,000 was made on accounts payable.
C. $45,000 was collected from the state for unrestricted grants-in-aid.
D. $4,000 was collected from interest on investments.
E. Taxes receivable in the amount of $58,000 was collected. $8,000 was applicable to taxes receivable of the prior year and $50,000 was applicable to the current year.
F. Contracts for employment of faculty and staff amounted to $72,000 in salaries and $7,200 in employee benefits. The contracts were signed and issued.
G. The bill from the National Power Company was received in the amount of $1,980.
H. Additional contracts for employment were signed and issued during the year amounting to $7,000 in salaries and $700 in additional employee benefits.
I. Total salaries paid during the year amounted to $78,000 and employee benefits amounting to $7,800 were paid. Encumbrances had been previously recorded for salaries in the amount of $79,000 in addition to encumbrances for employee benefits in the amount of $7,900.
J. The board of education made an additional appropriation of $2,000 and signed work orders in the amount of $9,000 for repair and maintenance services.
K. A check was issued for the amount due to the payroll agency fund.
L. By order of the board of education, $6,000 of taxes receivable applicable to the prior year was written off as uncollectible.

INSTRUCTIONS:

1. Post account balances in the general fund as of July 1, 19--.
2. Record the budget as adopted and record transactions of the year in general fund's general ledger, subsidiary revenue ledger, subsidiary expenditures ledger.
3. Post general journal entries to the general ledger, to the subsidiary revenue ledger, and to the subsidiary expenditures ledger.
4. Prepare a trial balance of the general ledger as of the end of the fiscal year, June 30, 19-1. Also prepare a supporting schedule for each of the subsidiary ledgers.
5. Prepare an interim balance sheet as of June 30, 19-1, before closing temporary accounts.

8-2. The school board of the City of Hillsdale prepared a general fund budget for the fiscal year beginning July 1, 19--, part of which was as follows:

Estimated revenue:		
From local sources:		
Ad valorem taxes	$39,000	
Sales and use taxes	6,500	
Penalties and interest on taxes	6,000	
Total estimated revenue		$51,500
Appropriations: (By function)		
Instruction	$36,400	
Supporting services	10,400	
Community services	2,600	
Total appropriations		$49,400

During the year actual revenue realized was as follows:

Ad valorem taxes	$35,400	
Sales and use taxes	5,850	
Penalties and interest on taxes	5,900	
Total realized revenue		$47,150

INSTRUCTIONS:

1. Prepare the necessary general journal entries to record the budget for both the general ledger and subsidiary ledgers, using the budgeted fund balance account no. 706.
2. Record the actual revenue realized, assuming that it was collected in cash, using the general ledger and subsidiary ledgers. Post to the general ledger and subsidiary ledgers.
3. Since the appropriation by the board exceeded actual revenues of the

school system, the board of education revised its appropriations for supporting services and community services by a reduction of 18%. Prepare the general journal entry to record the reduction in the appropriation for the general ledger and the subsidiary expenditure ledger.

4. Assume that actual expenditures, all on open accounts payable, are recorded as follows:

Instruction	$36,000
Supporting services	8,400
Community services	2,100
Total expenditures	$46,500

Record actual expenditures in general journal form as they affect both the general ledger and the subsidiary ledgers.

5. Assume that purchase orders, other commitments, etc., have been issued but the transactions are not completed at the end of the fiscal period as follows:

Instruction	$350
Supporting services	120
Community services	32
Total reserve for encumbrances	$502

Record issuance of purchase orders and other commitments as they affect the general ledger and subsidiary ledger accounts in general journal form.

6. Post to the general ledger and subsidiary ledger accounts.
7. Take a trial balance of the general ledger and prepare supporting schedules for both the revenue control account and the expenditure control account as of June 30, 19-1.
8. Record closing entries in general journal form as they affect the general ledger and subsidiary ledgers. Post to the general and subsidiary ledgers and rule all closed accounts.
9. Prepare a post-closing trial balance of the general ledger.

8-3. The Bridgeport School System has estimated revenue accounts with the following balances:

Estimated revenue from local sources:

Ad valorem taxes	$360,000
Sales and use taxes	72,000
Penalties and interest on taxes	6,800
Total	$438,800

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The following financial transactions occurred during the year:

A. The school system's portion of the state's revenue sharing program was estimated to be $40,000.

B. Estimated revenue from ad valorem taxes was found to be $4,000 in excess of the tax roll.

C. Revenue realized from all sources (assume in the form of cash), was:

Ad valorem taxes	$354,000
Sales and use taxes	75,000
Penalties and interest on taxes	6,800
State: unrestricted grant-in-aid	40,000
Total	$475,000

INSTRUCTIONS:

1. Record the effect of the budget in the revenue accounts for both the controlling and subsidiary accounts in general journal form and post to the ledgers. In lieu of the budgeted fund balance account, use the general fund balance unappropriated account.
2. Record the revision in the budget caused by the state's revenue sharing program and by the reduction in estimated revenue from ad valorem taxes in journal form and post to the general and subsidiary ledger.
3. Record collections from all sources of revenue in general and subsidiary ledgers.
4. Prepare a trial balance of the general ledger and a schedule comparing actual with estimated revenue as of June 30, 19--.
5. Record the entry necessary to close the revenue accounts, both controlling and subsidiary, through use of a revenue and expenditure summary account no. 708. Post to the ledgers and rule all accounts that are closed.
6. Balance, rule and bring the balance forward in the general fund balance, unappropriated account.

8-4. The Board of Education of Bridgeman School District receives monthly financial statements for all funds used in the financial administration of the school system. The following account balances appear in the general fund as of December 31, 19--:

Cash	$ 22,000	
Taxes receivable	46,000	
Estimated uncollectible taxes		$ 8,000
Internal services fund advance	6,000	
Due from City of Bridgeman	3,000	
Estimated revenue: sales and use tax	80,000	
Estimated revenue: tuition	4,000	
Estimated revenue: rentals	2,500	
Revenue: sales and use tax		42,000
Revenue: tuition		1,500
Revenue: rentals		1,350
Accounts payable		15,000
Due to payroll fund		10,000
Appropriations: instruction		42,000
Appropriations: supporting services		20,000
Appropriations: community services		17,000
Expenditures: instruction	20,000	
Expenditures: supporting services	12,000	
Expenditures: community services	15,000	
Encumbrances: community services	1,400	
General fund balance, unappropriated		47,650
Reserve for advance to Internal Service Fund		6,000
Reserve for encumbrances		1,400
	$211,900	$211,900

INSTRUCTIONS:

1. Prepare a statement of estimated and actual revenue.
2. Prepare a statement of appropriations compared with expenditures and encumbrances.
3. Prepare an interim balance sheet.

8-5. The Board of Education of Bryan School System appropriated $56,000 for repairs and maintenance services in its budget as of July 1, 19--. At its November meeting, the board signed a contract to repair Bentol Elementary School in the amount of $40,000.

In case 1: The cost to complete the repair on Bentol Elementary School came to a total of $37,500. $15,000 was paid immediately and the remainder was recorded as contracts payable.

INSTRUCTIONS:

1. Record the effect of the appropriation of $56,000 on the budgeted fund balance account in general journal form.
2. Record the general journal entry for the $40,000 encumbrance.

3. Prepare the necessary general journal entries to record the actual cost of the repair and its effect on the encumbrance accounts.

8-6. The Board of Education of Bryan School System appropriated $56,000 for repairs and maintenance services in its budget as of July 1, 19--. At its November meeting, the board signed a contract to repair Bentol Elementary School in the amount of $40,000.

In Case 2: The Job was partially completed by June 30, the end of the fiscal year at a cost of $19,000 which was paid.

INSTRUCTIONS:

1. Record the effect of the appropriation of $56,000 on the budgeted fund balance account in general journal form.
2. Record the general journal entry for the $40,000 encumbrance.
3. Prepare the necessary general journal entries to show partial completion of job and the payment of $19,000, the cost to June 30, 19--.
4. Record required closing entries.
5. As of July 1, 19-1, the following year, close the reserve for encumbrances account into fund balance unappropriated. Record the board's authorization to appropriate an amount in addition to the budget already adopted to cover outstanding commitments at the end of the prior year and to record the fact that the commitments are outstanding.
6. During the second year, assume that the repair job was completed. Cost incurred totalled $18,500 and was paid. Record the expenditure in general journal form.

9

THE STATEMENT OF CHANGES IN FINANCIAL POSITION

The financial statement that is coming to be most useful as a communication device between school systems and taxpayers is one that identifies the amount of financial resources provided from all sources and shows how the amount was used during the fiscal period. Today, it is referred to as the Statement of Changes in Financial Position. It was identified earlier as a Statement of Source and Application of Funds, and later by ASBO as a Statement of Financial Resources Provided and Their Application to Education. It provides information that other financial statements do not provide directly. Concise, easily prepared and easily understood, it shows what happened as a result of all financial transactions of a fund during a fiscal period. It answers one's simplest and most frequently asked question: Where did the school system's purchasing power come from and how was it used? It provides an economic indicator when prepared by using the "gross resources provided and applied" concept that is not available otherwise.

The statement of changes in financial position now ranks as a principal financial statement for business. In its 1971 Opinion No. 19, the Accounting Principles Board of the American Institute of Certified Public Accountants stated: "When financial statements purporting to present both financial position and results of operation are issued, a statement summarizing changes in financial position should also be presented as a basic financial statement for each period for which an income statement is presented."

APB Opinion 19 applies to business entities and, as such, can be interpreted to apply also to school systems as business entities. Its usefulness was found so meaningful that GASB first recommended its use with enterprise funds in 1968. In 1979, GASB's Statement 1, "Governmental Accounting and Financial Reporting Principles expanded its recommendation to use the statement of changes in financial position in financial reporting for all proprietary funds types, i.e., internal services funds and enterprise funds. The ability of this statement to provide an economic indicator for school systems that is not available otherwise makes it logical that the concept be used as an internal management report for all funds providing revenue (income) and expenditures (expenses) of each school system. Because, when it is prepared on the "gross financial resources provided and applied" concept, it becomes a meaningful financial statement for financial analysts, governmental units providing financial assistance to school systems, and taxpayers.

The statement of changes in financial position for a fund is more than a balance sheet, a statement of revenues and expenditures, a statement of changes in fund equity, an analysis of cash receipts and disbursements, a schedule of working capital or a schedule of changes in working capital. It presents financial information in a way that no other financial statement does. When using the "all financial resources" concept, it shows what it takes to run a school district.

For the individual fund, the statement of changes in financial position shows the total financial resources which were required to operate the fund for a specific fiscal period. When combined with the statement of changes in financial position for each fund, it gives a picture of the economic magnitude of the school district that is not possible otherwise. When the combined statement is published along with the combined balance sheet, the combined statement of revenues, expenditures and changes in fund balance, it is possible for the taxpayer to have full information about the financial operations of the school system, and a fully informed public is more likely to be sympathetic to the problems of elementary and secondary education and to be more willing to support its goals, aims and objectives. This is particularly important at the time voters are called upon to make decisions on financial matters of a school system by voting on tax rates and bond issues.

WHAT ARE FINANCIAL RESOURCES?

When asked the question, "What are financial resources?", a quick response may refer to items listed on a schedule of cash receipts or to revenue listed in a statement of revenue. Although important for internal financial information, the schedule of cash receipts and disbursements is concerned with only one of many resources available to a school system, cash. The statement of revenues also provides important information about some of the school system's major resources, but reference to these two financial reports does not identify all of the financial resources that are provided to a school system during a fiscal period. Through normal operation, others are provided to the school system.

Managerial accounting is concerned with identifying all of the financial resources that are available to the school system and developing ways for a maximum use of each. This is essential if these resources, property, and property rights are to be adequately safeguarded and effectively used for desired educational programs and activities. Financial resources are provided from any or all of the following: (Note that all are account credits.)

Converting assets
Incurring debt
Increasing a fund's fund balance as a result of correcting a prior year's error or by transfers from another fund
Recording revenue
Recording an expenditure reimbursement

Management is also concerned with allocating financial resources to both short-term and long-term educational programs, goals and objectives in order that the highest quality of education can be offered with the financial resources that are available. Therefore, identification and control of the ways by which financial resources may be applied to educational goals and objectives are important.

Financial resources may be applied to any or all of the following: (Note that all are account debits.)

Increasing assets
Decreasing debts
Decreasing a fund's fund balance as a result of correction of a prior year's error or by a transfer to another fund
Recording revenue rebates
Recording expenditures

The balance sheet is frequently referred to as a statement of financial position. Therefore, the statement of changes in financial position is prepared from a fund's comparative balance sheets, i.e., the balance sheet as at the beginning of the fiscal period and the balance sheet at the end of the fiscal period, computing the difference between the beginning and ending balances of each account. Its preparation, using the "all financial resources" concept, shows gross revenue and gross expenditures which is computed from the fund's statement of revenue and expenditures. Other financial resources and/or other uses of financial resources may be found on the fund's statement of changes in fund equity.

As early as 1963 in its Opinion No. 3, the Accounting Principles Board, American Institute of Certified Public Accountants, stated: "In the case of statements prepared for presentation in annual reports, a concept broader than that of working capital should be used which can be characterized or defined as 'all financial resources,' so that the statement will include the financial aspects of all significant transactions. . . ."

Thus, a broader interpretation of the statement of changes in financial position is possible for school systems than is possible by using either the "working capital" concept which includes only those transactions that affect the current assets or current liabilities, or the changes in working capital, the cash, or the changes in cash concepts. Both, the working capital concept and the cash concept, are presented in this chapter.

With the 1971 APB Opinion No. 19 requirement of the American Institute of Certified Public Accountants of including a statement of changes in financial position as a part of financial statements, when the 'all financial resources' concept is used it is possible to compare the magnitude of the school system's financial impact on a community, region or state with the financial impact of other business entities that publish financial statements in accordance with generally accepted accounting principles.

WHAT THE STATEMENT DOES

What the statement does may be partially illustrated through the following two cases:

1. Assume that a school system wishes to purchase land for $100,000 and construct a new school building costing $1,400,000 by issuing bonds of $1,000,000 at 103 (103 is a method used to express the price as 103 cents for each 100 cents contained in the principal amount stated on the face of the bond) value of 100 and paying $470,000 from cash. When the transactions are com pleted, the statement shows the source of $1,000,000 as proceeds from the principal of bonds sold, $30,000 from a premium on bonds issued, and $470,000 from a reduction in the cash balance. It shows a total of $1,500,000 to be applied to the purchase of land and construction of the new schoolhouse. This series of transactions results in the following:

Financial resources provided by:	
Decreasing assets	
Cash	$ 470,000
Increasing liabilities:	
Principal of bonds issued	1,000,000
Premium on bonds issued	30,000
Total financial resources provided	$1,500,000

Financial resources applied to:	
Increasing assets:	
Land	$ 100,000
Building	1,400,000
Total financial resources applied	1,500,000

2. Assume that certain general fixed assets of the school system are sold for $1,000 and the proceeds are deposited in the general fund. No other general fixed assets are purchased. The statement shows a total revenue of $1,000 from the sale of general fixed assets and a corresponding $1,000 applied to increase the cash balance. This transaction results in the following:

Financial resources provided by:	
Increasing revenue:	
Sale of general fixed assets	$ 1,000

Financial resources applied to:	
Increasing assets:	
Cash	$ 1,000

HOW THE STATEMENT IS PREPARED

This illustration shows how the statement of changes in financial position is prepared from the statement of revenues, expenditures, and fund equity and from the balance sheets at the beginning and end of the fiscal period for each fund used in the operation of the school district. Assume the general fund's statement of revenues, expenditures and fund equity appears as follows:

NEW SCHOOL DISTRICT
General Fund
Exhibit B
Statement of Revenues, Expenditures and Fund Equity
For the year ended December 31, 19--

Revenues:		
From local sources		$1,400,000
From intermediate sources		200,000
From state sources		1,230,000
From federal sources		120,000
From other school districts:		
In the state	$30,000	
In another state	20,000	150,000
Total revenues		$3,000,000
Expenditures:		
Administration	$ 200,000	
Instruction	2,000,000	
Attendance and health services	10,000	
Pupil transportation services	400,000	
Operation of plant	40,000	
Maintenance of plant	60,000	
Fixed charges	20,000	
Community services	40,000	
Debt service	130,000	
Total expenditures		2,800,000
Excess revenues over expenditures		$ 200,000
Fund equity, January 1, 19--		10,000
Fund equity, December 31, 19--		$ 210,000

Assume further that comparative balance sheets of the general fund are as follows:

NEW SCHOOL DISTRICT
General Fund
Comparative Balance Sheet

Exhibit A

	January-1	*December-31*
Cash	$ 4,000	$ 21,000
Temporary investments	25,000	18,000
Taxes receivable	40,000	242,200
Accounts receivable	10,000	22,300
Due from other funds	20,000	1,000
Inventory of supplies	1,000	500
Total Assets	$100,000	$305,000
Liabilities, Reserves and Fund Equity		
Vouchers payable	$ 40,000	$ 50,000
Due to other funds	10,000	5,000
Taxes collected in advance	20,000	36,000
Total Liabilities	$ 70,000	$ 91,000
Reserve for inventories	$ 1,000	$ 500
Reserve for encumbrances	19,000	3,500
Fund equity	10,000	210,000
Total Liabilities, reserves and fund equity	$100,000	$305,000

From the balance sheets at the beginning and end of the fiscal year, comparisons are made to determine the net changes that have occurred in the balance sheet. Such a comparison and determination is illustrated as follows:

	Jan. 1 19--	Dec. 31 19--	Net Change in Accounts	
			Debit	Credit
Cash	$ 4,000	$ 21,000	$ 17,000	
Temporary investments	25,000	18,000		$ 7,000
Taxes receivable	40,000	242,200	202,200	
Accounts receivable	10,000	22,300	12,300	
Due from other funds	20,000	1,000		19,000
Inventory	1,000	500		500
Total	$100,000	$305,000		
Vouchers payable	$ 40,000	$ 50,000		10,000
Due to other funds	10,000	5,000	5,000	
Taxes collected in advance	20,000	36,000		16,000
Reserve for encumbrances	20,000	4,000	16,000	
Fund equity	10,000	210,000		200,000
Total	$100,000	$305,000	$252,500	$252,500

In effect, the debits in the "net change in accounts" column represent resources applied and the credits represent resources provided. From the statement of revenues, expenditures, and fund equity, revenues represent resources provided and expenditures represent an application of financial resources. Therefore, with this analysis of the three financial statements, working papers for a statement of changes in financial position can be prepared for the general fund as follows:

NEW SCHOOL DISTRICT
Working Papers for Statement of Changes in Financial Position—General Fund

	Balance Sheet January 1, 19--		Balance Sheet December 31, 19--		Net Changes Account Balances		Eliminations and Substitutions		Financial Resources	
									Applied	Provided
Cash	4,000		21,000		17,000				17,000	
Temporary investments	25,000		18,000			7,000				7,000
Taxes receivable	40,000		242,200		202,000				202,000	
Accounts receivable	10,000		22,300		12,300				12,300	
Due from other funds	20,000		1,000			19,000				19,000
Inventory of supplies	1,000		500			500				500
Vouchers payable		40,000		50,000		10,000				10,000
Due to other funds		10,000		5,000	5,000				5,000	
Taxes collected in advance		20,000		36,000		16,000				16,000
Reserve for inventories		1,000		500	500				500	
Reserve for encumbrances		19,000		3,500	15,500				15,500	
Fund equity unappropriated		10,000		210,000		200,000	A) 200,000		-0-	-0-
	100,000	100,000	305,000	305,000	252,500	252,500				
Excess revenue over expenditures from Exhibit B							B) 200,000	A) 200,000	-0-	-0-
Total revenue, Exhibit B								3,000,000		3,000,000
Total expenditures, Exhibit B							B) 2,800,000		B) 2,800,000	
							3,200,000	3,200,000	3,052,500	3,052,500

EXPLANATION OF ELIMINATIONS AND SUBSTITUTIONS

As this is a working paper, no formal entries are made in the general journal of the general fund.

Each elimination and substitution is explained as follows:

A. The $200,000 net change in fund equity is eliminated by a debit because it is a net figure, the nature of which can be found by referring to the statement of changes in fund equity. There it is found to be the net excess of revenue over expenditures and the net change in fund equity is substituted by a credit identified for what it is: excess of revenue over expenditures. When making this elimination and substitution, note that the debits equal the credits.

B. The $200,000 representing net excess of revenue over expenditures is also a net figure which is eliminated by a debit. In its place is substituted the things that caused this net result. From the statement of revenue and expenditures, it is found to be the excess of revenue of $3,000,000 over

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expenditures of 2,800,000. When making this elimination and substitution, note that the debits equal the credits. The column totals for eliminations and substitutions must equal also.

The working paper is completed by extending the changes in account balances remaining after eliminations and extending the individual amounts that arose as a result of substitutions to the debit or credit columns which show that financial resources were either provided or applied.

Prior to drafting the formal statement of changes in financial position, the following observations can be made from the working papers:

1. Resources were provided by reduction or conversion of assets identified as temporary investments, due from other funds, and inventory of supplies. The reduction in these assets provided financial resources that are not reported when a school system uses a cash basis of recording financial transactions. Conversion of assets should come under the control of the board of education so that property of the school system can be properly safeguarded.
2. Financial resources were also provided by increasing the liabilities of the general fund during the year, i.e. vouchers payable and the deferred revenue account, taxes collected in advance. Full disclosure of financial transactions of the school system to the public requires that liability accounts be an integral part of the public school system's accounting structure.
3. Financial resources were applied to increase asset account balances during the year. Cash, taxes receivable and accounts receivable were increased. A financial statement that shows how much money was spent for things other than operating expenses of the school system is important to an inquiring public.
4. Financial resources were applied to the reduction of the liability due to other funds. Only the statement of changes in financial position has the capacity to show the amount of financial resources used during the year to reduce liabilities of the school system.
5. The working paper shows that the reserve for encumbrances was reduced during the period by $16,000 and such a reduction represented an application of resources.

From the working papers, the formal statement of changes in financial position is prepared as shown in the following illustration:

NEW SCHOOL DISTRICT
General Fund
Exhibit—C
Statement of Changes in Financial Position
For the year ended December 31, 19--

Resources provided:			
From revenues:			
Local sources		$1,400,000	
Intermediate sources		200,000	
State sources		1,230,000	
Federal sources		120,000	
Other school districts:			
In the state	$ 30,000		
In another state	20,000	50,000	$3,000,000
From reduction in assets:			
Sale of temporary investments		$ 7,000	
Collection of account, due from other funds		19,000	
Decrease in inventory of supplies		500	26,500
From increasing liabilities:			
Vouchers payable		$ 10,000	
Taxes collected in advance		16,000	26,000
Total resources provided			$3,052,500
Application of resources:			
To expenditure of school system:			
Administration		$ 200,000	
Instruction		2,000,000	
Attendance and health services		10,000	
Pupil transportation services		400,000	
Operation of plant		40,000	
Maintenance of plant		60,000	
Fixed charges		20,000	
Community services		40,000	
Debt service		30,000	$2,800,000
To increase assets:			
Increase in cash		$ 17,000	
Taxes receivable		202,200	
Accounts receivable		12,300	231,500
To reduction in liabilities:			
Reduction in amount due to other funds			5,000
To reduction in reserves:			
Reserve for inventories			500
Reserve for encumbrances			15,500
Total resources applied			$3,052,500

ACCOMPANYING FINANCIAL STATEMENTS

A balance sheet for each fund accompanies the fund's statement of changes in financial position. The balance sheet is a statement of financial position that shows each asset, liability, and fund equity account balance at the end of the fiscal period. The balance sheet is not in the statement of changes in financial position nor is the statement of changes in financial position a substitute for a balance sheet. Each presents different financial information. For preparation of the comprehensive annual financial report in NCGA's Statement 1, lists those considered to be general purpose financial statements as:

(1) Combined balance sheet—all fund types and account groups.
(2) Combined statement of revenues, expenditures, and changes in fund balances —all governmental fund types.
(3) Combined statement of revenues, expenditures, and changes in fund balances-budget and actual-general and special revenue fund types for which annual budgets have been legally adopted.
(4) Combined statement of revenues, expenses, and changes in retained earnings (or equity)-all proprietary fund types.
(5) Combined statements of changes in financial position all proprietary fund types.
(6) Notes to financial statements.

For purposes of the comprehensive annual financial report, GASB's Statement 1 states that the general outline and minimum content of the CAFR of a governmental unit include:
"c. Combining and Individual Fund and Account Group Statements and Schedules

(1) Combining Statements—By Fund Type —where a governmental unit has more than one fund of a given fund type. . . .
(2) Individual fund and account group statements — where a governmental unit has only one fund of a given type and for account groups and/or where necessary to present prior year and budgetary comparisons. . . .
(3) Schedules.
    (a) Schedules necessary to demonstrate compliance with finance-related legal and contractual provisions.
    (b) Schedules to present information spread throughout the statements that can be brought together and shown in greater detail (e.g., taxes receivable, including delinquent taxes; long-term debt; investments; and cash receipts, disbursements, and balances).
    (c) Schedules to present greater detail for information reported in the statements (e.g., additional revenue sources detail and object of expenditure data by departments).

(Narrative explanations useful in understanding combining and individual fund and account group statements and schedules that are not included in the notes to financial statements should be presented on divider pages, directly on the statements and schedules, or in a separate section)."

These Comprehensive Annual Financial Reports will be presented throughout the text by presenting annual financial reports that have earned ASBO's Certificate of Excellence in Financial Reporting. For management purposes, financial statements of individual funds and account groups will be emphasized.

The statement of changes in financial position is prepared primarily for presentation of financial information in a manner meaningful to the public. For that reason, it shows revenues and expenditures by broad classification; to provide detail about revenues and expenditures, the statement of revenues, expenditures and fund equity should accompany the statement of changes in financial position.

The statement of changes in fund equity contains all elements that caused a change from the beginning to the ending balance of fund equity. In addition to showing the excess of revenue over expenditures or the excess of expenditures over revenue, transfers in and/or out may have occurred, and errors of prior years may have been detected and corrected through fund equity. Appropriations of fund equity may have been made and/or the purposes for which fund equity may have been appropriated in prior periods may have been completed which may have resulted in a return from an appropriated fund equity account to the unappropriated fund equity account. Each of these transactions, if they occur, have an effect upon changes in financial position. Therefore, the statement of changes in fund equity should accompany the statement of changes in financial position to provide more detailed information than would appear on the statement of changes in financial position.

RESOURCES OF SCHOOL SYSTEMS—"ALL FINANCIAL RESOURCES" CONCEPT

Generally, revenue provides the largest amount of financial resources for a school district during a fiscal period. As revenue is shown in detail on the statement of revenue and expenditures, only the total amount of revenue is shown on the statement of changes in financial position when the "all financial resources" concept is used.

Resources are provided if any asset account is reduced at the end of the fiscal period to a figure below its balance at the beginning of the fiscal period. For example, if $100,000 was invested in an asset at the beginning of the year and only $70,000 is reported as the account balance at the end of the period, $30,000 has been provided. The question arises: Where did the $30,000 go? A number of transactions, each having a different effect on an account, may have occurred. To provide complete information about an account balance, it is necessary to analyze all transactions in the account during the accounting period, if that is desired. In some cases, an asset account is reduced because of converting it into cash, exchanging it for another asset, or recognizing it as a loss. However, whatever the cause, the amount of the reduction is reported.

Some accountants have prepared statements of changes in financial position that report only the excess of revenue over expenditures for the period as a source of working capital or as a source of cash. But, it must be emphasized that the statement is prepared primarily for public information and that off-setting revenue with expenditures by reporting the difference only, conceals the amount of revenue actually used to operate the school system. Therefore, for the public to understand what amount of financial resources is required for the operation of the school system, revenue should be reported by total amount on the fact of the statement of changes in financial position.

A fund's financial resources may come from transfers of fund equity from another fund. This amount would be found on the statement of changes in the recipient fund's equity rather than on its statement of revenue and expenditures, but it does provide financial resources to the recipient fund and, therefore, should be reported in the statement of changes in financial position for the recipient fund.

APPLICATION OF "ALL FINANCIAL RESOURCES" TO EDUCATION

All expenditures and expenses are applications of financial resources. Operating expenditures, capital outlay and debt service, generally, consume the greatest amount of a school district's financial resources. Although the statement of changes in financial position could be presented in a shorter form by off-setting expenditures against revenue, such an off-set would conceal the total amount of expenditures of a school system. Therefore, the full amount of expenditures should be reported on the statement of changes in financial position. The statement can present amounts by broad expenditure classification or in total because the required accompanying statement of revenue and expenditures shows the nature and amount of the expenditures in 'detail. Such a disclosure shows in large part what happened to the school system's financial resources.

Within a fund, an increase in the balance of any asset account at the end of the fiscal period over the balance at the beginning of the fiscal period represents an application of financial resources. For full information, it is important that the nature and amount of each asset account that is increased be shown in the statement of changes in financial position. Such a disclosure does show in part how the financial resources were used.

Financial resources are applied when any liability account is reduced at the end of the fiscal period to an amount less than at the beginning of the fiscal period. A number of transactions, each having a different effect on a liability account, may have occurred. Full disclosure of how a school system's financial resources were used requires reporting the nature and amount of each liability account that was reduced in the statement of changes in financial position. Reduction in liabilities may be a major cause of change in financial position of a school district.

Reductions in the balances of all fund equity accounts to an amount at the end of the fiscal period less than at the beginning of the fiscal period represents an application of a school system's financial resources. A reduction in the reserve for encumbrances or any other appropriated fund equity account to an amount at the end of the fiscal period less than at the beginning is a change in financial position. A transfer of fund equity unappropriated to another fund is a change in financial position of the fund and its disclosure should be reported on the statement of changes in financial position. The amounts by which all fund equity accounts have been reduced should be found on the statement of changes in fund equity rather than on the statement of revenue and expenditures.

Some accountants have prepared the statement of changes in financial position by reporting only the excess of expenditures over revenue as an application or use of financial resources, working capital, or cash. But, it must be emphasized that the statement of changes in financial position is prepared primarily for public information and that off-setting expenditures with revenue by reporting the difference only conceals the amount of expenditures of the school system. Thus, total expenditures should be shown in the statement of changes in financial position. Detailed information about each expenditure is reported in the accompanying required statement of revenue and expenditures. Therefore, broad classifications of expenditures or the total amount of expenditures may be shown in the statement of changes in financial position.

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION

An individual statement of changes in financial position is prepared for each fund used. When statements of changes in financial position are combined for all funds, full disclosures of the financial size of the school system is made. This is the statement that can be compared meaningfully with the statement of changes in financial position of any other business entity to compare the economic impact of the school system with the economic impact or size of the business entity in terms of dollars for a fiscal year.

Comparisons of combined balance sheets of the school system with balance sheets of business entities also provide information about comparative sizes, but this comparison is as of one day only because the balance sheet presents financial position on one date only. Comparisons of the combined statement of revenue and expenditures of the school system with income statements of business entities provide comparisons of income or revenue and comparisons of expenses or expenditures for a fiscal period, but these are only parts of the financial structure of both entities. Only the combined statement of changes in financial position of all funds provides the over-all financial dimensions of a school system.

Complete financial accounting and reporting serves as one of the strongest ways that school systems can use to keep the public informed about the financial needs of education. Public support is needed as the school board and its administrators strive to provide the highest quality of education that is possible with the financial resources of the school system. The following chapters discuss the nature of and financial operation of each of the funds and account groups used by elementary and secondary school systems.

ILLUSTRATIONS OF STATEMENTS OF CHANGES IN FINANCIAL POSITION ALL FINANCIAL RESOURCES CONCEPT

ILLUSTRATION 1:

NEW HOPE SCHOOL DISTRICT
Statement of Changes in Financial Position
For the Year Ended June 30, 19....

Exhibit C

Resources provided:			
From reduction in assets:			
Taxes receivable, current		$1,454,000	
Taxes receivable, delinquent		5,000	
Notes receivable		40,000	
Due from other governmental units		200,000	
Inventories		237,000	$ 1,936,000
From increasing liabilities:			
Vouchers payable		$ 13,000	
Contracts payable		775,000	788,000
From revenues:			
From local sources		$5,075,500	
From state sources		1,490,000	
From federal sources		735,500	
From sale of lunches		56,000	7,357,000
Total resources provided			$10,081,000
Resources applied:			
To increase assets:			
Cash		$1,800,000	
Accounts receivable		10,000	
Loans receivable		100,000	
Amount available for retirement of debt and interest		182,000	
Investments, temporary		360,000	$ 2,452,000
To reduce liabilities:			
Bonds payable			860,000
To reduce reserves: :			
Reserve for encumbrances			140,000
To operations:			
Instruction		$2,005,000	
Supporting services:			
Pupil	$ 601,000		
Administration, general	288,000		
School administration	161,000		
Business administration	2,206,000		
Central administration	1,130,000	4,386,000	
Community services		238,000	6,629,000
Total resources applied			$10,081,000

Illustration I shows that resources are provided from major sources in addition to revenue. Total resources were $10,081,000 while revenue provided $7,357,000. Where did the remaining $2,724,000 come from? $1,936,000 came from either voluntary or involuntary conversion of assets, a common business transaction. It is important for the board of education and administrative officers to control amounts realized from disposition of assets.

The illustration also shows that major resources are provided by increasing the school system's liabilities by $788,000. It is important to emphasize that goods and services generally come from increasing liabilities. A major source of cash can come from increasing interest-bearing, short-term or long-term notes payable or bonds payable. Therefore, the amount that is available for the board of education to allocate to educational programs, goals and objectives is not restricted to either budgeted or realized revenue. Purchasing power comes from many other sources that must be controlled.

In addition, the illustration shows that financial resources can be applied to many things other than instructional programs. In this case, a number of asset accounts were increased by a total of $2,452,000 while resources of $860,000 were applied to the reduction of the school system's liabilities, bonds payable. The reserve for encumbrances was reduced by $140,000 and the remaining $6,629,000 was applied to operations of the school system. Note that a broad classification was used to show how the financial resources were applied to operations, rather than showing one total amount.

Illustration 2

NEW SCHOOL DISTRICT
GENERAL FUND

Exhibit C

Statement of Changes in Financial Position
For Year Ended June 30, 19....

Resources provided:		
From revenues:		
Local sources	$ 767,995.79	
Intermediate sources	16,219.94	
State sources	849,904.04	
Federal sources	6,091.10	
Gifts and bequests	608.03	$1,640,818.90
From reduction in assets:		
Reduction in accounts receivable	$ 131,099.24	
Reduction in prepaid insurance	576.59	131,675.83
From increasing liabilities:		
Increase in accounts payable	$ 14,437.26	
Increase in salaries payable	33,367.80	
Increase in withholding payable	6,624.80	
Increase in due to other funds	2,221.90	
Increase in reserves and deferred revenues	4,759.56	61,411.32
Total resources provided		$1,833,906.05
Application of school financial resources:		
To expenditures of school district:		
Instruction	$1,097,646.48	
Administration	67,067.82	
Transportation of pupils	61,612.82	
Operation of plant	191,461.59	
Maintenance of plant	19,941.08	
Fixed charges	12,743.97	
Capital outlay	23,058.05	
Cafeteria funds deficit	9,609.97	
Transfers to other school districts (tuition)	117,054.89	$1,600,196.67
To increase assets:		
Increase in cash	$ 64,314.60	
Increase in taxes receivable	15,372.24	
Increase in inventory of supplies	984.02	80,670.86
To reduction of liabilities:		
Reduction of current and short term loans	$ 134,829.02	
Reduction of contracts for equipment purchases	18,209.50	153,038.25
Total school resources applied		$1,833,906.05

Illustration 2 presents a statement of changes in financial position for three individual funds: the general fund, the capital projects fund, and the debt service fund.

CAPITAL PROJECTS FUND

Statement of Changes in Financial Position

For Year Ended June 30, 19....

Exhibit C

Resources provided:		
From revenues:		
Property tax and interest	$153,959.27	
Other revenue	25,485.23	$179,444.50
From reduction in assets:		
Decrease in cash in banks		311,775.73
From increasing liabilities:		
Increase in amount due from other funds	$ 636.35	
Increase in reserve for unpaid taxes	2,000.00	2,636.35
Total resources provided		$493,856.58
Application of resources:		
To expenditures:		
Site acquisition and improvements	$ 42,669.87	
Additions to building	215,163.22	
Furniture and equipment	192,441.19	
Library books	10,107.02	$460,381.30
To increase assets:		
Increase in accounts receivable	$ 2,465.19	
Increase in unpaid taxes receivable	14,470.74	16,935.93
To reduction in liabilities:		
Reduction of accounts payable		16,539.35
Total resources applied		$493,856.58

DEBT SERVICE FUND

Statement of Changes in Financial Position

For Year Ended June 30, 19....

Exhibit C

Resources provided:		
From revenues:		
Debt services property tax	$361,663.79	
Interest on delinquent taxes	1,534.89	
Interest on investments	7,684.25	$370,882.93
From increasing liabilities:		
Increased reserve for unpaid taxes		2,291.69
Total resources provided		$373,174.62
Application of resources:		
To expenditures:		
Redemption of term bonds	$208,000.00	
Interest on bonded debt	136,281.25	
Other expenses	2,229.31	$346,510.56
To increase assets:		
Increase in cash	$ 19,559.22	
Increase in taxes receivable	2,044.09	
Increase in amount due from other funds	2,858.25	24,461.56
To reduction of liabilities:		
Due on matured bonds and coupons		2,202.50
Total Debt Service Fund resources applied		$373,174.62

Illustration 3

NEW SCHOOL DISTRICT
For the General Fund
Capital Projects Fund and Debt Service Fund
Combined Statement of Changes in Financial Position
For the Year Ended June 30, 19--

Resources provided:		
From revenue:		
General Fund	$1,640,818.90	
Capital Projects Fund	179,444.50	
Debt Service Funds	370,882.93	
Total revenue for three funds		$2,191,146.33
From asset reductions:		
General Fund	$ 131,675.83	
Capital Projects Fund	311,775.73	
Total asset reductions in three funds		443,451.56
From increasing liabilities:		
General Fund	$ 61,411.32	
Capital Projects Fund	2,636.35	
Debt Service Funds	2,291.69	
Total increase in liabilities from three funds		66,339.36
Total resources provided for three funds		$2,700,937.25
Resources applied:		
To operating expenditures:		
General Fund	$1,600,196.67	
Capital Projects Fund	460,381.30	
Debt Service Funds	346,510.56	
Total operating expenditures in three funds		$2,407,088.53
To increase assets:		
General Fund	$ 80,670.86	
Capital Projects Fund	16,935.93	
Debt Service Funds	24,461.56	
Total increase in assets of three funds		122,068.35
To reduce liabilities:		
General Fund	$ 153,038.52	
Capital Projects Fund	16,539.35	
Debt Service Funds	2,202.50	
Total reduction in liabilities of three funds		171,780.37
Total resources applied by three funds		2,700,937.25

Illustration 3 presents a combined statement of changes in financial position for three funds; the general fund, the capital projects fund, and the debt service fund. This procedure can be expanded to include all funds used by a school system. Care must be exercised in recording transactions that affect more than one fund to insure that revenue and/or expenditures of one fund are not also recorded as revenue and/or expenditures of another fund.

Illustration 4

NEW SCHOOL DISTRICT
Statement of Changes in Financial Position
Combined Funds
For the Year Ended June 30, 19....

Exhibit C

Educational resources provided:		
From revenue (See schedule 1, attached)		$ 5,301,418
From reduction in assets (See schedule 2, attached)		795,838
From increasing liabilities (See schedule 3, attached)		9,518,827
From correction of 19-0 to -1 expenditures		175
Total educational resources provided		$15,616,258
Educational resources applied:		
To expenditures (See schedule 4, attached)		$ 5,721,530
To increase assets (See schedule 5, attached)		9,697,149
To reduce liabilities (See schedule 6, attached)		196,645
To corrections:		
19-0 to 19-1 revenue	$508	
Taxes charged off (19....)	426	934
Total educational resources applied		$15,616,258

NEW SCHOOL DISTRICT
Schedules Supporting the Combined
Statement of Changes in Financial Position
For the Year Ended June 30, 19....

Educational resources provided from revenue:	Schedule 1	
Local sources		$2,871,554
State sources – direct		2,032,152
State sources – redistribution of federal aid		28,169
Federal sources		12,096
Other school districts		55,246
Bookstore		22,101
Activity funds		97,927
School lunch		182,173
Total educational resources provided		$5,301,418
Educational resources provided by reduction of assets:	Schedule 2	
Decrease in cash		$ 635,774
Decrease in accounts receivable from state		721
Decrease in taxes receivable – prior years		155,008
Decrease in accrued interest receivable		4,030
Decrease in inventory – supplies		305
Total educational resources provided		$ 795,838
Educational resources provided by increasing liabilities:	Schedule 3	
Increase in accrued salaries payable		$ 8,485
Increase in salary withholding payable		24,990
Increase in owing to other funds		2,809
Increase in serial bonds payable in future years		6,310,000
Increase in interest payable in future years		3,172,543
Total educational resources provided		$9,518,827

Educational resources applied to expenditures:	Schedule 4	
Instruction		$3,429,067
Administration		167,423
Transportation		93,467
Operation of plant		512,675
Maintenance of plant		49,785
Fixed charges		107,834
Capital outlay		53,807
Tuition		36,995
Activity funds		94,528
Bookstore		18,195
Athletics		6,018
Band and choir		589
Publications		712
Debate and forensics		2,200
School lunch		178,667
Outlay for plant and equipment		532,683
Bond redemption		185,000
Interest on bonds outstanding		250,941
Other expenses		944
Total resources applied to expenditures		$5,721,530

Educational resources applied to increasing assets:	Schedule 5	
Accounts receivable – Title I		$ 4,463
Accounts receivable – other funds		1,991
Accounts receivable – other		2,802
Taxes receivable – current year		200,681
Prepaid insurance		4,669
Amount to be provided for bond retirement and interest		9,482,543
Total resources applied to increase assets		$9,697,149

Educational resources applied to reduction of liabilities:	Schedule 6	
Vouchers payable		$ 104,612
Reserve for federal obligations		33
Building and site contracts payable		34,427
Interest on bonded debt		57,573
Total resources applied to reduce liabilities		$ 196,645

Illustration 4 presents a combined funds' statement of changes in financial position with supporting schedules which provide more detailed information.

ADDITIONAL INTERPRETATIONS OF THE STATEMENT

In addition to the "all financial resources" concept of what the statement of changes in financial position should present there also is the "funds" concept which is quite different from the concept of "funds" used in governmental accounting and financial accounting for school systems. The term "Funds" as used by commercial enterprises is interpreted by some to mean "working capital" and by others to mean "cash" or "cash and marketable securities." In fact, the statement of changes in financial position is a title that was created by the American Institute of Certified Public Accountants as recently as 1971 from a statement that had been called by titles such as the "Statement of Application of Funds", "The Statement of Source and Application of Funds", "Statement of Resources and Applications" and by other titles. As early as 1968, Governmental Accounting Standards Board (GASB) illustrated the use of a statement entitled "Statement of Sources and Applications of Cash Funds" as a part of financial statements for enterprise funds. The meaningfulness of the statement of changes in financial position was recognized for governmental entities by GASB in its 1979 Statement 1, *Governmental Accounting and Financial Reporting Principles* that the Statement of Changes in Financial Position be by expanding its use not only for enterprise funds but also for internal services funds which compose its concept of proprietary type funds.

THE WORKING CAPITAL CONCEPT

In commercial enterprises, working capital is extremely important because it measures the ability of a firm to pay its current debts by computing the excess of current assets over current liabilities. A ratio of better than one dollar of current assets to each dollar of current liabilities is a management objective to be achieved consistently. Theoretically, in governmental accounting and financial accounting for school systems, the general fund is working capital because it should have only current assets and current liabilities, as its long-term fixed assets are carried in the general fixed assets account group and its long-term debts are carried in the general long-term debt account group.

A schedule of working capital for any fund can be prepared for management use at any time or at the end of each month and submitted as a supporting schedule to interim and annual financial statements. An illustration of a schedule of working capital follows:

NEW HOPE SCHOOL DISTRICT
General Fund
Schedule of Working Capital
Date

Current Assets:		
Cash		$ 21,000
Temporary investments		18,000
Taxes receivable		242,200
Accounts receivable		22,300
Due from other funds		1,000
Inventory of supplies		500
Total current assets		$305,000
Current Liabilities:		
Vouchers payable	$ 50,000	
Due to other funds	5,000	
Taxes collected in advance	36,000	
Total current liabilities	$ 91,000	
Working Capital	$214,000	

A statement showing changes in working capital is illustrated in the following:

NEW HOPE SCHOOL DISTRICT
Statement of Changes in Working Capital
For the year ending December 31, 19-1

	January 1 19-1	Changes Increase Debit	Changes Decrease Credit	December 31, 19-1
WORKING CAPITAL:				
Current Assets:				
Cash	4,000	17,000		21,000
Temporary investments	25,000		7,000	18,000
Taxes receivable	40,000	202,200		242,200
Accounts receivable	10,000	12,300		22,300
Due from other funds	20,000		19,000	1,000
Inventory of supplies	1,000		500	500
Total current assets	100,000			305,000
Current Liabilities:				
Vouchers payable	40,000		10,000	50,000
Due to other funds	10,000	5,000		5,000
Taxes collected in advance	20,000		16,000	36,000
Total current liabilities	70,000			91,000
Working Capital	30,000	236,500	52,500	214,000

Four illustrations follow showing how the working capital concept is used in a statement of changes in financial position. The first is from the comprehensive annual financial report of Washington County School District No. 48, Beaverton, Oregon, for the year ended June 30, 1981. The second is from the comprehensive annual financial report of the Klein Independent School District, Spring, Texas, for the fiscal year ended August 3l, 1981. The third is from the Charlotte-Mecklenburg Board of Education, Charlotte, North Carolina, comprehensive annual financial report for the fiscal year ended June 30, 1981. The fourth is from the Dallas Independent School District, Dallas, Texas, comprehensive annual financial report, fiscal year ended August 31, 1981.

	Enterprise Fund	Internal Service Funds	Total (Memorandum Only)
Working capital provided:			
Net income	$40,358	$250,245	$290,603
Add depreciation not requiring working capital in the current period	2,505		2,505
Working capital provided by operations	42,863	250,245	293,108
Contributions	5,010		5,010
Working capital provided	47,873	250,245	298,118
Working capital used:			
Acquisition of equipment	5,010		
	$42,863	$250,245	$298,118
Elements of net increase in working capital:			
Cash and investments	$ 50	$450,161	$450,211
Receivables	2,279	(7,933)	(5,654)
Due from other funds	(49,678)	(307,090)	(356,768)
Assets held for sale	93,785		93,785
Accounts payable	(318)	(14,683)	(15,001)
Accrued payroll		(230)	(230)
Due to other funds	(3,255)	130,020	126,765
Net increase in working capital	$42,863	$250,245	$298,118

The accompanying notes are an integral part of the financial statements.

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COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

Year Ended August 31, 1981
With Comparative Totals for August 31, 1980

	Proprietary	Fiduciary	Totals (Memorandum only)	
	Enterprise Funds	Trust Funds	1981	1980
Sources of working capital:				
Operations:				
Net income	$ 64,236	$360,154	$424,390	$ 11,923
Items not requiring working capital—depreciation	54,055	—	54,055	46,734
Total sources of working capital	118,291	360,154	478,445	58,677
Uses of working capital:				
Net loss from operations	—	—	—	70,047
Acquisition of fixed assets	43,144	—	43,144	13,265
Total uses of working capital	43,144	—	43,144	83,312
Net increase (decrease) in working capital	$ 75,147	$360,154	$435,301	$(24,635)
Elements of increase (decrease) in working capital:				
Cash	$ 32,100	$136,853	$168,953	$(17,049)
Certificates of deposit	—	250,000	250,000	—
Due from state government	(35,871)	—	(35,871)	6,246
Accrued interest earnings	—	1,414	1,414	(266)
Prepaid expenses	3,368	—	3,368	—
Cash with paying agents	—	12,000	12,000	—
Inventories	648	—	648	9,242
Due to general fund	—	(3,251)	(3,251)	—
Due from general fund	35,000	—	35,000	—
Salaries payable	37,473	—	37,473	(4,497)
Accounts payable	18,311	(36,862)	(18,551)	(18,311)
Deferred revenue	(15,882)	—	(15,882)	—
Net increase (decrease) in working capital	$ 75,147	$360,154	$435,301	$(24,635)

See accompanying notes to financial statements

CHARLOTTE-MECKLENBURG BOARD OF EDUCATION
COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION
ALL PROPRIETARY FUND TYPES
FOR THE YEARS ENDED JUNE 30, 1981 AND 1980

	ENTER-PRISE	INTERNAL SERVICES	TOTALS (MEMORANDUM ONLY)	
			1981	1980
SOURCES OF WORKING CAPITAL:				
Operations:				
Net Income	$278,340	$206,913	$485,253	$502,829
Items Not Requiring Working Capital:				
Depreciation	148,307	378,325	526,632	481,439
Loss on Retirement of Fixed Assets	1,168		1,168	22,120
Working Capital Provided by Operations	427,815	585,238	1,013,053	1,006,388
Contributed Capital:				
Equipment:				
General Fund	2,115		2,115	7,464
Capital Projects Fund	22,208		22,208	
Private Donations	25,065		25,065	
Total Sources of Working Capital	477,203	585,238	1,062,441	1,013,852
USE OF WORKING CAPITAL:				
Acquisition of Equipment	141,205	291,843	433,048	312,359
INCREASE IN WORKING CAPITAL	$335,998	$293,395	$629,393	$701,493
INCREASE (DECREASE) IN WORKING CAPITAL: by components				
Cash	$ (5,911)	$ (292)	$ (6,203)	$ 17,724
Investments	289,685	680,933	970,618	(123,777)
Receivables	(48,617)	(365,162)	(413,779)	448,050
Inventories	32,844	56,212	89,056	85,467
Accounts Payable	36,039	21,214	57,253	101,377
Accrued Liabilities	36,477	(99,510)	(63,033)	178,921
Due to Other Funds	(4,519)		(4,519)	(6,269)
INCREASE IN WORKING CAPITAL	$335,998	$293,395	$629,393	$701,493

See notes to financial Statements.

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Dallas Independent School SCHEDULE A-5

COMBINED STATEMENT OF CHANGES IN FINANCIAL POSITION—
ALL PROPRIETARY FUND TYPES
(ENTERPRISE)

FOR THE YEAR ENDED AUGUST 31, 1981

Sources of Funds	
Operations:	
Decrease in working capital	$385,178
Total sources of funds	$385,178
Application of Funds	
Net loss	$518,205
Item not requiring current outlay of funds—depreciation	(181,765)
Additions to fixed assets	48,738
Total application of funds	$385,178
Changes in components of working capital:	
Cash	$589,980
Due from state	388,476
Interfund loans receivable	(644,048)
Inventories and prepaid expenses	(97,194)
Accounts payable	(253,640)
Accrued liabilities	(8,388)
Interfund loans payable	108,307
Deferred revenue	(466,383)
Net decrease in working capital	$(385,178)

See accompanying notes to combined financial statements.

THE CASH CONCEPT AND THE CASH AND MARKETABLE SECURITIES CONCEPT

Cash presents a serious problem not only to school systems but in commercial enterprises also and that problem is how to have enough cash to pay currently maturing obligations. A schedule of cash receipts and disbursements can be prepared daily or presented as a supporting schedule to interim financial statements. A study of when cash is received from each source during the year, and an analysis of the consistency with which cash is received during certain periods of time during the year from each source is an excellent cash management procedure. The study can be made by use of schedules of cash receipts and disbursements.

The format of a schedule of cash receipts and disbursements and a bank reconciliation for a fund follows:

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NEW HOPE SCHOOL DISTRICT

Schedule 1

General Fund

Interim Schedule of Cash Receipts and Disbursements

For period ended date

Cash balance, July 1, 19-1		$ 288,798
Add:		
Cash receipts to date		3,269,842
Cash available for use		$3,558,640
Less:		
Cash disbursements to date		3,300,286
Cash balance (date)		$ 258,354

Reconciliation

Balance per bank statement		$ 864,487
Add:		
Deposit in transit		76,842
Total		$ 941,329
Less:		
Outstanding checks:		
Number 1096	$ 25	
1097	234,650	
1099	150,782	
1101	146,812	
1104	150,706	682,975
Cash balance (date)		$ 258,354

A management procedure includes a reconciliation of the bank statement as a supporting schedule to each interim financial statement.

An illustration of a combined schedule reconciling balances of cash accounts and investments for all funds with bank accounts and investments is presented in the following illustration taken from the Marion Independent School District, Marion, Iowa, comprehensive annual financial report for the fiscal year ended June 30, 1981.

MARION INDEPENDENT SCHOOL DISTRICT
SCHEDULE RECONCILING WARRANT ISSUING AND CASH DISBURSING OFFICERS' BALANCES
June 30, 1981

	Warrant Issuing Officer's Balance	Less Cash On Hand	Less Investments	Add Outstanding Warrants	Treasurer's Balance
Governmental Fund Types:					
General Fund	$ 478,959	$ 200	$ 475,536	$ 278,199	$ 279,322
Special Revenue Funds	31,587	—	31,587	—	—
Debt Service Fund	116,389	—	108,259	—	8,139
Capital Projects Funds	38,398	—	40,687	5,031	—
	$ 683,410	$ 200	$ 681,979	$ 286,230	$ 287,461
Proprietary Fund Type:					
Hot Lunch Fund	$ 46,546	$ 100	$ 46,429	$ 293	$ 310
Fiduciary Fund Types:					
Gritzbaker Memorial Fund	$ 500	$ —	$ 500	$ —	$ —
Rathbun Trust Fund	29,055	—	29,055	—	—
Student Activity Funds	17,017	—	16,793	1,621	1,845
	$ 46,572	$ —	$ 46,348	$ 1,621	$ 1,845
	$ 776,528	$ 300	$ 774,756	$ 288,144	$ 289,616

Depository bank and Investment balances:	
First National Bank, Marion, Iowa:	
General Fund account	$ 279,322
Special Revenue Funds account	—
Debt Service Fund account	8,139
Capital Projects Funds account	—
Hot Lunch Fund account	310
Student Activity Funds account	1,845
Treasurer's balance	$ 289,616
Investments held	774,756
	$1,064,372

A working paper illustrating how the cash concept can be used in a statement of changes in financial position follows:

NEW HOPE SCHOOL DISTRICT
Working Papers—Statement of Changes in Financial Position

	Account Balances January 1, 19-1		Changes		Account Balances December 31, 19-1					
Temporary investments	25,000			7,000	18,000					
Taxes receivable	40,000		102,200		142,200					
Accounts receivable	10,000		12,300		22,300					
Due from other funds	20,000			19,000	1,000					
Inventory of supplies	1,000			500	500					
Vouchers payable		40,000		10,000		50,000				
Due to other funds		10,000	5,000			5,000				
Taxes collected in advance		20,000		16,000		36,000				
Reserve for encumbrances		20,000	16,000			4,000				
Fund equity unappropriated		10,000		100,000		110,000				
Totals	96,000	100,000	135,500	152,500	184,000	205,000				
Cash	4,000		17,000		21,000					
	100,000	100,000	152,500	152,500	205,000	205,000				

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From the working paper, the following statement of changes in financial position illustrates how the cash concept can be presented.

NEW HOPE SCHOOL DISTRICT
Statement of Changes in Financial Position
General Fund
For year ending December 31, 19-1

Exhibit D

Cash balance, January 1, 19-1			$ 4,000
Sources of cash:			
Reduction of assets:			
Temporary investments	$ 7,000		
Due from other funds	19,000		
Inventory of supplies	500	$ 26,500	
Increasing indebtedness:			
Vouchers payable	$ 10,000		
Taxes collected in advance	16,000	26,000	
Increasing fund equity unappropriated:			
Excess revenue over expenditures		200,000	252,500
Total			$256,500
Application of cash:			
Increasing assets:			
Taxes receivable	$202,200		
Accounts receivable	12,300	$214,500	
Decreasing liabilities:			
Due to other funds		5,000	
Decreasing fund equity appropriated:			
Reserve for encumbrances		16,000	235,500
Cash balance, December 31, 19-1			$ 21,000

An illustration of a statement of changes in financial position which emphasizes cash and temporary investments is taken from the comprehensive annual financial report of the Board of Education and the Public Schools of Anne Arundel County, Annapolis, Maryland, for the fiscal year ended June 30, 1981, follows:

BOARD OF EDUCATION OF ANNE ARUNDEL COUNTY

STATEMENT OF CHANGES IN FINANCIAL POSITION—
PROPRIETARY FUND TYPE
(INTERNAL SERVICE FUND)
FOR THE FISCAL YEAR ENDED JUNE 30, 1981
WITH COMPARATIVE AMOUNTS FOR 1980
(Note 8)

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	1981	1980
Sources of Funds:		
Operations:		
Net Income	$ 23,404	$ 48,067
Charges (Credits) to Income not affecting Funds:		
Increase in Accrued Liabilities	434,204	110,874
Increase in Interfund Receivables	(293,558)	—
Increase in Accounts Receivable	(1,364)	—
Funds Provided by Operations	162,686	158,941
Residual Equity Transfer from the General Fund	—	432,056
Total Sources of Funds	$ 162,686	$ 590,997
Uses of Funds:		
Residual Equity Transfer to the General Fund	$ 432,056	$ —
Increase (Decrease) in Cash and Temporary Investments	(269,370)	590,997
Total Uses of Funds	$ 162,686	$ 590,997

The accompanying notes are an integral part of the financial statements.

Chapter 9
Statement of Changes in Financial Position

QUESTIONS

9-1. What financial statements are used by a school system in preparing a statement of changes in financial position? Do these statements provide all information necessary for the preparation of a statement of changes in financial position? If not, what other information is necessary?

9-2. Does the statement of changes in financial position eliminate the need for a balance sheet and a statement of revenues, expenditures and fund equity?

9-3. What does the statement of changes in financial position do when using the "all financial resources" concept? When using the working capital concept? When using the cash concept?

9-4. On working papers for preparing a statement of changes in financial position, what do the amounts in the debit column of "changes in accounts" indicate when prepared using the "all financial resources" concept?

9-5. (a) For what purpose are most financial resources of a school system applied?

(b) Could the statement of changes in financial position be shorter? If so, how? If not, why?

9-6. Why is it desirable that a statement of revenues, expenditures and fund equity accompany the statement of changes in financial position?

9-7. (a) What are possible reasons why a school system's asset accounts would be reduced during an accounting period?

(b) How are reductions in asset accounts reported on the statement of changes in financial position using the "all financial resources" concept?

9-8. If a liability account is reduced at the end of a fiscal period to an amount less than it was at the beginning of the fiscal period, have financial resources been provided or applied?

9-9. What is the proper heading for a statement of revenues, expenditures and fund equity for the general fund of the Columbia Public School District for the year ended December 31, 19--?

9-10. From comparative balance sheets of a general fund what are three indications that financial resources have been provided during a fiscal year, using the "all financial resources" concept?

9-11. Why is it better for total revenue to be reported by source and amount on the statement of changes in financial position than to report the excess of revenue over expenditures when using the "all financial resources" concept?

9-12. In the event expenditures exceed revenues for a fiscal period, how would it be shown on the statement of changes in financial position using the "all financial resources" concept? Using the working capital concept?

9-13. What is working capital?

9-14. What is the best source of information about "cash flow" of a school system? What information can be secured about cash flow as a pattern of cash receipts and disbursements for a fund of a school district?

CASES AND PROBLEMS

9-1. Comparative balance sheets for the general fund, Newbern School District at January 1, 19--, and December 31, 19--, are presented below:

	Jan. 1 19...	Dec. 31 19...	Application	Source
Cash	$22,000	$ 40,000		
Temporary investments	30,000	19,000		
Taxes receivable	35,000	20,000		
Accounts receivable	22,000	19,500		
Due from other funds	12,000	15,000		
Inventory of supplies	800	1,200		
Total	$121,800	$114,700		
Vouchers payable	$28,000	$ 31,000		
Due to other funds	15,000	20,000		
Taxes collected in advance	45,000	32,000		
Reserve for encumbrances	20,000	15,000		
Matured bonds payable	10,000	8,000		
Fund equity	3,800	8,700		
Total	$121,800	$114,700		

INSTRUCTIONS:

Compute the change in account balances and indicate whether the change provided financial resources or applied financial resources by recording the change in the appropriate column.

9-2. Comparative balance sheets for the Green County School District as of January 1 and December 31, 19--, are presented below:

	Jan. 1	Dec. 31
Cash	$ 18,000	$245,000
Temporary investments	34,000	
Taxes receivable	90,000	90,000
Accounts receivable	21,000	21,000
Due from other funds	10,000	2,000
Inventory of supplies	3,500	3,500
Total	$176,500	$361,500
Vouchers payable	$ 26,500	$ 26,500
Due to other funds	10,000	10,000
Taxes collected in advance	15,000	22,000
Reserve for encumbrances	60,000	60,000
General fund equity	65,000	243,000
	$176,500	$361,500

The following transactions took place during the year:

A. Collected additional taxes in advance, $7,000.
B. Collected revenue from state, $440,000.
C. Collected state grant-in-aid, $320,000.
D. Collected taxes from local sources assessed and levied during year, $250,000.
E. Collected revenue from federal sources, $50,000.
F. Sold temporary investments for $25,000.
G. Collected revenue from intermediate sources, $90,000.
H. Collected $8,000 on amount due from other funds.
I. Paid administrative expenses, $90,000.
J. Paid instructional salaries, $650,000.
K. Paid transportation of pupils, $8,000.
L. Paid cost of operation of plants, $125,000.
M. Fixed charges of $30,000 were paid.
N. Costs of community services paid in amount of $35,000.
O. Debt Service items amounting to $25,000 were paid.

INSTRUCTIONS:

Prepare a statement of changes in financial position for the general fund of Green County School District for the year ended December 31, 19-- using the "all financial resources" concept.

9-3 The statement of revenues, expenditures and fund equity for the Olde School District for the year ended December 31, 19--, and the comparative balance sheets for January 1 and December 31, 19--, are given below:

OLDE SCHOOL DISTRICT
General Fund
Comparative Balance Sheets

	19-1	
Assets	January 1	December 31
Cash	$ 3,500	$ 37,600
Temporary investments	22,500	17,000
Long-term investments	50,000	47,500
Taxes receivable	20,000	300,000
Accounts receivable	8,500	12,100
Due from other funds	1,500	6,000
Inventory of supplies	1,500	300
Total assets	$107,500	$420,500
Liabilities, Reserves and Fund Equity		
Vouchers payable	$25,000	$ 70,000
Due to other funds	15,000	4,500
Taxes collected in advance	34,500	83,300
Total liabilities	$ 74,500	$157,800
Reserve for encumbrances	18,000	3,500
General Fund equity	15,000	259,200
Total liabilities, reserves and fund equity	$107,500	$420,500

OLDE SCHOOL DISTRICT
General Fund
Statement of Revenues, Expenditures and Fund Equity
For the year ended December 31, 19....

Revenues:		
From local sources	$ 800,000	
From state sources	750,000	
From federal sources	50,000	
From other school systems in the state	15,000	
Total revenues		$1,615,000
Expenditures:		
Administration	$ 75,000	
Instruction	1,215,000	
Health services	4,500	
Transportation services	16,000	
Operation of plant	8,000	
Maintenance of plant	9,500	
Food services	18,500	
Fixed charges	7,500	
Community services	10,000	
Debt service	6,800	
Total expenditures		1,370,800
Excess revenues over expenditures		$ 244,200
General Fund equity, January 1, 19....		15,000
General Fund equity, December 31, 19....		$ 259,200

INSTRUCTIONS:

Using (a) the "all financial recources" concept, (b) using the working capital concept, and (c) using the cash concept,

(1) Prepare working papers for a statement of changes in financial position for year ended December 31, 19--.
(2) Prepare a statement of changes in financial position for the general fund of Olde School District for the year ended December 31, 19--.

Section 2

ACCOUNTING PRINCIPLES As Applied to The Various Funds Used in Financial Administration of School Systems

The board of education is responsible for proper administration of all funds used in financial administration of the school system at the state, provincial, and local school district levels. Accounting is one of the most useful management instruments or tools for providing a basis for proper administration because if presents the picture of the financial condition of the individual school system. Proper accounting can serve as the basis for wise management decisions on the part of the board and as a most effective means for securing financial support of education. However, the task of accounting for the financial operation of a school system is a big undertaking, not only in view of the amount of money involved but in view also of the strings that are attached to money that comes to aid education.

The accounting structure of a school system, therefore, requires the use of various kinds of funds, each of which has the capacity to work with the legal, contractual, or administrative limitations or restrictions placed upon the school system's financial resources, money and property. This secion of the book presents the various kinds of funds that have been found useful in analyzing, recording, reporting, administering and managing financial transactions in keeping with all the terms, limitations, restrictions, or "strings" attached to money used for elementary and secondary education. Other area in which public money is used have been faced with similar problems of limitations and restrictions and, in what sense, the accounting principles, procedures, and techniques are kindred to those in other areas of government.

Section 2

Part 1

THE FORMAL BUDGETARY FUNDS

THE GENERAL FUND
SPECIAL REVENUE FUNDS
CAPITAL PROJECTS FUNDS
DEBT SERVICE FUNDS

Identified as the formal budgetary funds by ASBO, these funds are referred to as "governmental type" funds by the Governmental Accounting Standards Board. Expanding the accounting equation, these funds use budgetary accounts that provide meaningful management information throughout the fiscal period, a financial structure that is not used in other funds, account groups, or commercial accounting.

The budgetary accounts are:

Estimated revenue
Appropriations
Encumbrances
Reserve for encumbrances
Budgeted fund balance

By use of the budgetary accounts in these funds, a compari son of the formal budget's estimated revenue is made with actual revenue realized to date during the fiscal period from each source. Attention is also focused on the amount of revenue that has not been realized to date or the amount of revenue realized in excess of the budget estimate to date. These accounts make it possible for the board and management to take action necessary to realize the maximum amount of revenue that is available to the school district from each source.

By use of the budgetary accounts throughout the fiscal period, expenditures plus commitments or encumbrances are compared with appropriations thus providing a financial structure that tends to minimize the possibility of making commitments in excess of legal limitations.

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THE GENERAL FUND

The general fund is the most important fund for a school system because it is used to account for all assets, liabilities, revenues, and expenditures to carry out the educational program for which the school district was created, a program frequently referred to as the foundation program. Special revenue funds may be created to supplement the foundation program while all other funds and account groups provide supporting services necessary for the educational programs. The general fund covers a much wider range of financial transactions than any other fund or account group maintained by the school system. Names or titles used to identify a general fund vary from state to state, from province to province, and among other jurisdictions of the United States. It is frequently referred to as the "current fund." But, whatever the title, financial and managerial accounting principles are uniform.

NATURE OF THE GENERAL FUND

The general fund is created at the inception of the school system and its services continue as long as the school system continues operating. From this point-of-view, the general fund is said to be perpetual. Each year the financial resources of the general fund are expended wholly or in part; therefore, usually all assets are current assets and all liabilities are current liabilities. Thus, it may be referred to as the current fund. Financial resources of the general fund are identified and replenished each year when the budget is adopted.

RELATION OF THE GENERAL FUND TO OTHER FUNDS

Financial transactions of the general fund, at one time or another, affect almost all other funds and account groups used in financial administration of the school system. Frequently, by action of the board of education, unappropriated (unreserved) fund equity of another fund is transferred to the general fund. The board may authorize the general fund to transfer certain sums of money or other assets to another fund. Many general fixed assets which have a useful life longer than one year are acquired through expenditure accounts in the general fund, but the fixed assets acquired do not continue to be accounted for through the general fund. Instead, they are recorded in the general fixed assets account where they are accounted for as long as they are owned by the school district. In some cases, the general fund may be the recipient of proceeds of a long-term note or bond issue. When this occurs, however, it is customary for the longterm liability to be carried in the general long-term debt group of accounts instead of in the general fund. Goods or services of an internal service fund may be acquired by the general fund and revenue in excess of expenses may be transferred from an enterprise fund to the general fund.

TYPICAL TRANSACTIONS OF A GENERAL FUND

Unlike accounting for commercial concerns which have asset, liability, owners equity, income and expense accounts, financial transactions of a school system's general fund require the following accounts:

Current assets
Current liabilities,
Fund equity,
Revenue, both estimated and actual,
Expenditures,
Encumbrances, and
Appropriations.

The following are transactions of a general fund and illustrate budgetary and actual financial transactions. Explanations are given for each entry.

NEW SCHOOL SYSTEM
General Fund
General Journal

Page 1

19---				
Jan. 1	Estimated tax revenue	13	500,000	
	Estimated license revenue	15	10,000	
	Estimated fine revenue	17	5,000	
	Appropriations:			
	Administrative expense	19		100,000
	Instructional salaries	22		350,000
	Maintenance and repairs	25		50,000
	Budgeted fund balance	11		15,000
	To record the adopted budget.			
Feb. 2	Cash	1	10,000	
	Temporary loans payable	7		10,000
	To record temporary loan from bank.			
Mar. 3	Cash	1	25,000	
	Loans from other funds	8		25,000
	To record temporary loan from other funds.			
Apr. 4	Loans to other funds	4	18,000	
	Cash	1		18,000
	To record temporary loan to a special revenue fund.			
5	Taxes receivable	5	540,000	
	Estimated uncollectible taxes	6		40,000
	Revenue from tax levy	14		500,000
	To record tax assessment and levy.			

Taxes receivable, of course, is a controlling account which has subsidiary tax receivable accounts with each taxpayer or for each parcel of property. In governmental accounting, a provision is made for estimated uncollectible taxes at the time the tax assessment and levy is recorded. The allowance is made in order to take into consideration the taxes that may be abnormally slow or impossible to collect. The entry of April 5 does not take the entire $540,000 into the revenue account but the amount recorded in the revenue account represents actual revenue to be realized from the tax levy as nearly as it can be determined at the time. The amount estimated to be uncollected is credited to the estimated uncollectible taxes account.

When an account is found to be uncollectible, that account may be written off, by order of the board, by debiting estimated uncollectible taxes and crediting taxes receivable in both the controlling account and in the subsidiary taxes receivable account. Other general fund transactions follow:

May 2	Cash	1	440,000	
	Taxes receivable	5		440,000
	To record collection of taxes.			
June 7	Cash	1	11,000	
	Revenue from licenses	16		11,000
	To record collection of fees from licenses issued.			
	Total forwarded to page 2	X	1,559,000	1,559,000

NEW SCHOOL SYSTEM
General Fund
General Journal

Page 2

19--	Total forwarded from page 1	X	1,559,000	1,559,000
June 8	Due from law enforcement department	3	4,500	
	Revenue from fines	18		4,500
	To record claim for fines collected by law enforcement department.			
9	Cash	1	4,500	
	Due from law enforcement department	3		4,500
	To record collection from law enforcement department.			
July 10	Encumbrances: Maintenance and repairs	27	45,000	
	Reserve for encumbrances	12		45,000
	To record placement of contract for repairs.			
Aug. 11	Expenditures: Maintenance and repairs	26	48,000	
	Accounts payable	9		48,000
	To record completion of contract for maintenance and repairs.			
Aug. 11	Reserve for encumbrances	12	45,000	
	Encumbrances: Maintenance and repairs.	27		45,000
	To reverse the encumbering entry as it is no longer needed.			

Note that on July 10, to record the encumbrance for contracts issued for repairs, it was estimated at that time that $45,000 would be amount involved. However, on August 11, when all invoices are received, the actual bills for services received amounted to $48,000. This is the amount that is entered as the actual expenditure and as the existing liability. Also note that the entry recording the encumbrances is reversed on August 11. Other entries appearing on page 2 of the general journal follow:

12	Accounts payable	9	48,000	
	Cash	1		48,000
	To record payment of liability for repairs.			
Sept. 13	Loans from other funds	8	17,000	
	Cash	1		17,000
	To record partial payment of loans from other funds.			
Oct. 14	Cash	1	12,000	
	Loans to other funds	4		12,000
	To record partial collection of loans to other funds.			
Nov. 15	Encumbrances: Administrative expense	21	100,000	
	Encumbrances: Instructional salary expense	24	350,000	
	Reserve for encumbrances	12		450,000
	To record issuance of contracts.			
Dec. 16	Reserve for encumbrances	12	430,000	
	Encumbrances:			
	Administrative expense	21		100,000
	Instructional salaries	24		330,000
	To reverse encumbrances when the liabilities are created.			
	Total carried forward to page 3	X	2,663,000	2,663,000

NEW SCHOOL SYSTEM
General Fund
General Journal

Page 3

19--	Total brought forward from page 2	X	2,663,000	2,663,000
Dec. 16	Expenditures:			
	Administrative expense	20	77,000	
	Instructional salaries	23	330,000	
	Cash	1		407,000
	To record payment for services received.			
17	Petty cash	2	100	
	Cash	1		100
	To record establishment of a petty cash account authorized by the board of education.			

Entries for encumbrance transactions of August 11 and December 16 illustrate that the original estimates of contract costs may exceed or fall short of the actual amount required to complete a transaction.

As a means of preventing overexpenditures, it is better for encumbrances to exceed actual costs; otherwise, expenditures and commitments in excess of appropriations could occur if appropriate action is not taken to prevent it. Periodic reviews of outstanding commitments and expenditures make it possible for timely action to be taken by the board of education to make reappropriations, thereby reprogramming all available resources. In this way, budgetary accounting control tends to make it possible to obtain the maximum benefit from all of the school system's financial resources.

In the December 16 transaction, the encumbrances applicable to administrative expenses were estimated to be $100,000. However, when actual vouchers were presented, $77,000 was the amount of the actual administrative expense. As salaries are contractual in nature and the exact amount can be calculated early in the fiscal period, it is common for the entire amount of contracts issued for salaries to be encumbered at the the time the contracts are signed. This procedure can be most effective if contracts outstanding are reviewed periodically to assure that appropriate entries have been made to reflect retirements during the year and replacements with lower salaried personnel, so that resulting savings can be used for other purposes where allowed by law.

Assuming that these are all of the transactions for the period, the general ledger of the general fund would appear when the transactions are posted as follows:

CASH PAGE 1

19—					19—				
Feb.	2		1	10,000	Apr.	4		1	18,000
Mar.	3		1	25,000	Aug.	12		2	48,000
May	6		1	440,000	Sept.	13		2	17,000
June	7		1	11,000	Dec.	16		3	407,000
	9		2	4,500		17		3	100
Oct.	14		2	12,000					

PETTY CASH PAGE 2

19—									
Dec.	17		3	100					

DUE FROM LAW ENFORCEMENT DEPARTMENT PAGE 3

19—					19—				
June	8		2	4,500	June	9		2	4,500

LOAN TO OTHER FUNDS PAGE 4

19—					19—				
Apr.	4		1	18,000	Oct.	14		2	12,000

TAXES RECEIVABLE

PAGE 5

19--					19--				
Apr.	5		1	540,000	May	6		1	440,000

ESTIMATED UNCOLLECTIBLE TAXES

PAGE 6

					19--				
					Apr.	5		1	40,000

TEMPORARY LOAN PAYABLE

PAGE 7

					19--				
					Feb.	2		1	10,000

LOANS FROM OTHER FUNDS

PAGE 8

19--					19--				
Sept.	13		2	17,000	Mar.	3		1	25,000

ACCOUNTS PAYABLE

PAGE 9

19--					19--				
Aug.	12		2	48,000	Aug.	11		2	48,000

FUND EQUITY

PAGE 10

19--					19--				
					Jan.	1		1	15,000

BUDGETED FUND BALANCE

PAGE 11

					19--				
					Jan.	1		1	15,000

RESERVE FOR ENCUMBRANCES

PAGE 12

19--					19--				
Aug.	11		2	45,000	July	10		2	45,000
Dec.	16		2	430,000	Nov.	15		2	450,000

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REVENUE: TAX LEVY

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE No. 13		ACTUAL REVENUE No. 14		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
19--								
Jan.	1		1	500,000				500,000
Apr	5		1				500,000	—0—

REVENUE: LICENSES

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE No. 15		ACTUAL REVENUE No. 16		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
19--								
Jan.	1		1	10,000				10,000
June	7		1				11,000	(1,000)

REVENUE: FINES

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE No. 17		ACTUAL REVENUE No. 18		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
19--								
Jan.	1		1	5,000				5,000
June	8		2				4,500	500

EXPENDITURES: ADMINISTRATIVE EXPENSES

DATE		EXPLANATION	P. R.	ENCUMBRANCES No. 21		EXPENDITURES No. 20		APPROPRIATIONS No. 19		UNENCUMBERED BALANCE
19--										
Jan.	1		1						100,000	100,000
Nov.	15		2	100,000						—0—
Dec.	16		2		100,000	77,000				23,000

EXPENDITURES: INSTRUCTIONAL SALARIES

DATE		EXPLANATION	P. R.	ENCUMBRANCES No. 24		EXPENDITURES No. 23		APPROPRIATIONS No. 22		UNENCUMBERED BALANCE
19--										
Jan.	1		1						350,000	350,000
Nov.	15		2	350,000						—0—
Dec.	16		2		330,000	330,000				20,000

EXPENDITURES: MAINTENANCE AND REPAIRS

DATE		EXPLANATION	P. R.	ENCUMBRANCES No. 27		EXPENDITURES No. 26		APPROPRIATION No. 25		UNEMCUMERED BALANCE
19--										
Jan.	1		1						50,000	50,000
July	10		2	45,000						5,000
Aug.	11		2		45,000	48,000				

GENERAL FUND TRIAL BALANCE

A trial balance prepared from the accounts is presented as follows:

NEW SCHOOL SYSTEM
General Fund
Trial Balance
December 31, 19--

Cash	$ 12,400	
Petty cash	100	
Loans to other funds	6,000	
Taxes receivable	100,000	
Estimated uncollectible taxes		$ 40,000
Temporary loans payable		10,000
Loans from other funds		8,000
Budgeted fund balance		15,000
Reserve for encumbrances		20,000
Estimated revenue: Tax levy	500,000	
Revenue: Tax levy		500,000
Estimated revenue: Licenses	10,000	
Revenue: Licenses		11,000
Estimated revenue: Fines	5,000	
Revenue: Fines		4,500
Appropriations: Administrative expenses		100,000
Expenditures: Administrative expenses	77,000	
Appropriations: Instructional salaries		350,000
Expenditures: Instructional salaries	330,000	
Encumbrances: Instructional salaries	20,000	
Appropriations: Maintenance and repairs		50,000
Expenditures: Maintenance and repairs	48,000	
	$1,108,500	$1,108,500

GENERAL FUND INTERIM BALANCE SHEET

From the general fund's trial balance, interim financial statements can be prepared. The following illustrates an interim balance sheet:

NEW SCHOOL SYSTEM
General Fund
Interim Balance Sheet
Date during fiscal year

Exhibit A

Assets and Resources

Cash				$12,400
Petty cash				100
Loans to other funds				6,000
Taxes receivable			$100,000	
Less estimated uncollectible taxes			40,000	60,000
Estimated revenue: Tax levy			$500,000	
Less: Revenue, tax levy			500,000	
Estimated revenue: Licenses			$10,000	
Less: Revenue, Licenses			11,000	(1,000)
Estimated revenue: Fines			$ 5,000	
Less: Revenue, Fines			4,500	500
				$78,000

Liabilities and Fund Equity

Liabilities:				
Temporary loans payable			$ 10,000	
Loans from other funds			8,000	
Total liabilities				$18,000
Fund Equity:				
Appropriated:				
Reserve for encumbrances			$ 20,000	
Budgeted fund balance			15,000	
Appropriations—See schedule 1		$500,000		
Less:				
Expenditures	$455,000			
Encumbrances	20,000	475,000		
Unencumbered appropriations			25,000	
Total fund equity				60,000
				$78,000

NEW SCHOOL SYSTEM
General Fund
Statement Comparing Expenditures and Encumbrances With Appropriations
For period ending ________ ___, 19--

Schedule 1

	Appropriations	Expenditures	Encumbrances	Unencumbered Balance
Administrative Services	$100,000	$ 77,000	—0—	$23,000
Instructional Salaries	350,000	330,000	$20,000	—0—
Maintenance and Repairs	50,000	48,000	—0—	2,000
	$500,000	$455,000	$20,000	$25,000

Financial statements prepared during the fiscal period and prior to making closing entries appear as presented in the preceding illustration. At the end of the fiscal period, adjusting and closing entries are necessary and in this illustration they appear in general journal form as follows:

General Journal
Adjusting and Closing Entries

Page 6

19--					
Dec.	31	Estimated uncollectible taxes	6	25,000	
		Taxes receivable	5		25,000
		To write off taxes receivable found to be uncollectible by order of the board.			
	31	Revenue: Tax levy	14	500,000	
		Revenue: Licenses	16	11,000	
		Revenue: Fines	18	4,500	
		Estimated revenue:			
		Tax levy	13		500,000
		Licenses	15		10,000
		Fines	17		5,000
		Revenue and expenditure summary	28		500
		To close all revenue accounts, actual and budgetary.			
	31	Appropriations:			
		Administrative expenses	19	100,000	
		Instructional salaries	22	350,000	
		Maintenance and repairs	25	50,000	
		Expenditures:			
		Administrative expenses	20		77,000
		Instructional salaries	23		330,000
		Maintenance and repairs	26		48,000
		Encumbrances:			
		Instructional salaries	24		20,000
		Revenue and expenditure summary	28		25,000
		To close all expenditure accounts, actual and budgetary.			
	31	Revenue and expenditure summary	28	25,500	
		Budgeted fund balance	11		25,500
		To close the revenue and expenditure account into the budgeted fund balance account			

Observe at this point in posting the closing entries that the budgeted fund balance account has been changed from a budgetary balance, i.e., one that shows the excess of estimated revenue over appropriations, to a balance that shows the excess of actual revenue over actual expenditures and encumbrances.

The balance of the budgeted fund balance account is:

Excess of estimated revenue over appropriations	15,000
Closing of revenue and expenditure summary	25,500
	40,500

Revenue: Tax levy	500,000		
Licenses	11,000		
Fines	4,500	515,500	
Expenditures:			
Administrative expense	77,000		
Instructional salaries	330,000		
Maintenance and repairs	48,000		
Encumbrances:			
Instructional salaries	20,000	475,000	
			40,500

The final closing entry is as follows:

31	Budgeted fund balance	11	40,500	
	Fund equity unappropriated	10		40,500
	To close the budgeted fund balance account.			

When the closing entries are posted to the general ledger, the accounts are balanced, ruled, and the balances carried forward to the succeeding fiscal period. The accounts appear as follows:

CASH

PAGE 1

19--					19--				
Feb.	2		1	10,000	Apr.	4		1	18,000
Mar.	3		1	25,000	Aug.	12		2	48,000
May	6		1	440,000	Sept.	13		2	17,000
June	7		1	11,000	Dec.	16		3	407,000
	9		2	4,500		17		3	100
Oct.	14		2	12,000		31	Balance	✓	12,400
				502,500					502,500
19--					19–				
Jan.	1	Balance	✓	12,400					

PETTY CASH

PAGE 2

19--									
Dec.	17		3	100					

DUE FROM LAW ENFORCEMENT DEPARTMENT

PAGE 3

19--					19--				
June	8		2	4,500	June	9		2	4,500

LOAN TO OTHER FUNDS

PAGE 4

19--					19--				
Apr.	4		1	18,000	Oct.	14		2	12,000
					Dec.	31	Balance	✓	6,000
				18,000					18,000
19--									
Jan.	1	Balance	✓	6,000					

TAXES RECEIVABLE

PAGE 5

19--					19--				
Apr.	5		1	540,000	May	6		1	440,000
					Dec.	31		(a)	25,000
						31	Balance	✓	75,000
				540,000					540,000
19--									
Jan.	1	Balance	✓	75,000					

ESTIMATED UNCOLLECTIBLE TAXES

PAGE 6

19--					19--				
Dec.	31		(a)	25,000	Apr.	5		1	40,000
	31	Balance		15,000					
				40,000					40,000
					19--				
					Jan.	1	Balance		15,000

TEMPORARY LOAN PAYABLE

PAGE 7

					19--				
					Feb.	2		1	10,000

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LOANS FROM OTHER FUNDS

PAGE 8

19--					19--				
Sept.	13		2	17,000	Mar.	3		1	25,000
Dec.	31	Balance	✓	8,000					
				25,000					25,000
					19--				
					Jan.	1	Balance	✓	8,000

ACCOUNTS PAYABLE

PAGE 9

19--					19--				
Aug.	12		2	48,000	Aug.	11		2	48,000

FUND BALANCE UNAPPROPRIATED

PAGE 10

19--					19--				
Dec.	31	Balance	X	40,500	Dec.	31		6	40,500
					19--				
					Jan.	2	Balance	X	40,500

BUDGETED FUND BALANCE

PAGE 11

19--					19--				
Dec.	31		6	40,500	Jan.	1		1	15,000
					Dec.	31		6	25,500
				40,500					40,500

RESERVE FOR ENCUMBRANCES

PAGE 12

19--					19--				
Aug.	11		2	45,000	July	10		2	45,000
Dec.	16		2	430,000	Nov.	15		2	450,000
	31	Balance	X	20,000					
				495,000					495,000
					19--				
					Jan.	2	Balance	X	20,000

REVENUE AND EXPENDITURE SUMMARY

PAGE 28

19--					19--				
Dec.	31		6	25,500	Dec.	31		6	500
						31		6	25,000
				25,500					25,500

REVENUE: TAX LEVY

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE No. 13		ACTUAL REVENUE No. 14		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
19--								
Jan.	1		1	500,000				500,000
Apr.	5		1				500,000	—0—
Dec.	31		6		500,000	500,000		—0—
				500,000	500,000	500,000	500,000	—0—

REVENUE: LICENSES

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE No. 15		ACTUAL REVENUE No. 16		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
19--								
Jan.	1		1	10,000				10,000
June	7		1				11,000	(1,000)
Dec.	31		6		10,000	10,000		—0—
				10,000	10,000	11,000	11,000	—0—

REVENUE: FINES

DATE		EXPLANATION	P. R.	ESTIMATED REVENUE No. 17		ACTUAL REVENUE No. 18		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
19--								
Jan.	1		1	5,000				5,000
June	8		2				4,500	500
Dec.	31		6		5,000	4,500		—0—
				5,000	5,000	4,500	4,500	—0—

EXPENDITURES: ADMINISTRATIVE EXPENSES

DATE		EXPLANATION	P. R.	ENCUMBRANCES No. 21		EXPENDITURES No. 20		APPROPRIATION No. 19		UNENCUMBERED BALANCE
19--										
Jan.	1		1						100,000	100,000
Nov.	15		2	100,000						—0—
Dec.	16		2		100,000	77,000				23,000
	31		6				77,000	100,000		—0—
				100,000	100,000	77,000	77,000	100,000	100,000	—0—

EXPENDITURES: INSTRUCTIONAL SALARIES

DATE		EXPLANATION	P. R.	ENCUMBRANCES No. 24		EXPENDITURES No. 23		APPROPRIATION No. 22		UNENCUMBERED BALANCE
19--										
Jan.	1		1						350,000	350,000
Nov.	15		2	350,000						—0—
Dec.	16		2		330,000	330,000				20,000
	31		6		20,000		330,000	350,000		—0—
				350,000	350,000	330,000	330,000	350,000	350,000	—0—

EXPENDITURES: MAINTENANCE AND REPAIRS

DATE		EXPLANATION	P. R.	ENCUMBRANCES No. 27		EXPENDITURES No. 26		APPROPRIATION No. 25		UNENCUMBERED BALANCE
19--										
Jan.	1		1						50,000	50,000
July	10		2	45,000						5,000
Aug.	11		2		45,000	48,000				2,000
Dec.	31		6				48,000	50,000		—0—
				45,000	45,000	48,000	48,000	50,000	50,000	—0—

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The balance sheet for the general fund, prepared after closing temporary accounts at the end of the fiscal period, appears as follows:

Exhibit A

NEW SCHOOL SYSTEM
General Fund
Balance Sheet
December 31, 19--

Assets		
Cash		$12,400
Petty cash		100
Loans to other funds		6,000
Taxes receivable	$75,000	
Less estimated uncollectible taxes	15,000	60,000
Total assets		$78,500
Liabilities and Fund Equity		
Liabilities:		
Temporary loans payable	$10,000	
Loans from other funds	8,000	
Total liabilities		$18,000
Fund Equity:		
Unappropriated:		
Fund equity	$40,500	
Appropriated:		
Reserve for encumbrances	20,000	
Total fund equity		60,500
Total liabilities and fund equity		$78,500

Observe that the assets section is identified as assets only. The closing entries closed the estimated revenue accounts and the revenue accounts which, for interim balance sheet purposes, are identified as "resources". The closing entries also closed the appropriation, expenditure, and encumbrances accounts which appear on the interim balance sheet only.

From the accounts, a statement of revenues, expenditures, and fund equity is prepared. This statement is informative to the board of education and administrative officers because it compares actual revenues and expenditures with estimated revenues and appropriations. The statement appears as follows:

NEW SCHOOL SYSTEM
General Fund
Statement of Revenues, Expenditures and Fund Equity
For the year ended December 31, 19....

Revenues:	Budget		Actual	
Revenue from licenses	$ 10,000		$ 11,000	
Revenue from fines	5,000		4,500	
Revenue from tax levy	500,000		500,000	
Total revenue		$515,000		$515,500
Expenditures:				
Administrative expenditures	$100,000		$ 77,000	
Instructional salaries expenditures	350,000		350,000	
Maintenance and repairs expenditures	50,000		48,000	
Total expenditures		500,000		475,000
Excess of revenue over expenditures		$ 15,000		$ 40,500
Fund equity, January 1, 19....		.....		.....
Fund equity, December 31, 19....		$ 15,000		$ 40,500

An alternative method of presenting comparisons of estimated and actual revenue which indicate the amount of unrealized revenue from each source is presented later in the chapter. And an alternative method of presenting expenditures and encumbrances compared with appropriations which compute the amount of the unencumbered balance of the appropriation is presented later in the chapter.

Variances between the budgetary estimates and actual revenues and expenditures can be analyzed for management purposes as follows:

Fund equity, December 31, 19...., actual		$ 40,500
Fund equity, December 31, 19...., budget		15,000
Excess of actual fund equity over budgeted fund equity		$ 25,500
Excess actual revenues over estimated revenues:		
Excess of actual revenue from licenses over budget	$ 1,000	
Less excess of budget revenue from fines over actual	500	
Excess of actual revenue over budgeted revenue		$ 500
Excess of budgeted expenditures over actual:		
Excess of budget administrative expenditures over actual	$23,000	
Excess of budget maintenance and repairs over actual	2,000	
Excess of budgeted expenditures over actual		25,000
Total		$ 25,500

COMPARISON OF BUDGET WITH ACTUAL TRANSACTIONS

Through the use of a statement which compares actual revenues and expenditures with budgeted revenues and expenditures and encumbrances, the effect of any variance is shown on the fund equity account. Such a financial statement provides a basis upon which administrative decisions can be based. Analyzing variances between actual and budgeted revenues and between expenditures plus encumbrances and appropriations will determine the variances, but not the reasons for them. Other factors usually not contained in the financial statements may explain the reason for variances.

In the event a variance is found to be a controllable but unfavorable variance, it may be possible for administrative action to be taken during the fiscal period when such action can be effective. Information indicating the cause of the variance must be provided in time for it to be effective.

STATEMENT OF CHANGES IN FINANCIAL POSITION

A statement of changes in financial position is prepared for the general fund as illustrated in chapter 9. When this statement is combined with statements of changes in financial position for the other funds, it presents a complete picture of financial operation of the school district in a way that is not provided otherwise and in a way that can be understood by the public.

BANK RECONCILIATION

For each checking account with a bank or with an internal agency fund such as the "central treasury", a monthly bank statement is provided for the depositor. The bank statement shows the amount on deposit at the beginning of the month, the amounts deposited during the month, and the amounts withdrawn. It shows other charges and credits that have been made to the depositor's account in addition to the account balance at the end of the month. The bank or central treasury returns the depositor's checks that have been paid and cancelled and it sends copies of any additional memoranda or documents that have been used in making additional charges and credits to the depositor's account during the month.

The balance shown on the bank statement usually does not agree with the balance shown by the depositor's cash account and check stubs. The reasons are that the depositor may have completed certain transactions which, because of the element of time, have not been recorded by the bank. For example, the depositor may have recorded a cash deposit on the last day of the month which was not received or recorded by the bank on that date. Or, more frequently, the depositor may have issued and mailed checks in payment of accounts payable which have not been presented to the bank for payment by the date of the bank statement. These are known as outstanding checks. In addition, the bank may have made service charges and charges for checks deposited but which have been returned to the bank as a result of nonpayment. When checks are returned, they generally are identified as NSF, "not sufficient funds." In other cases, the depositor may have sent certain instruments such as a note receivable to the bank for collection or the holder of a promissory note from the depositor may have presented it to the bank for payment. Therefore, the depositor should reconcile the bank statement with each cash account and check stub balance each month. If errors have occurred either by the depositor or by the bank, they may be corrected immediately.

A bank reconciliation may be prepared as follows:

A. Compare deposits listed on the bank statement with deposits shown on the check stubs. Deposits not shown by the bank statement may be "deposits in transit to the bank" and, if so, the deposit should be added to the bank statement balance. Any deposits not shown on the depositor's check stubs should be added to the check stub balance and appropriate adjusting entries should be made to bring the cash account into agreement with the correct bank balance.

B. Compare all cancelled checks returned by the bank with the check stubs. This may be done by arranging cancelled checks in numerical order. Some checks which were outstanding at the end of the prior month may have been paid by the bank during the current month and some checks outstanding at the end of the prior month may remain outstanding at the end of the current month. Comparison of cancelled checks with corresponding check stubs will make it possible to determine which checks have been issued but which have not been paid by the bank. These are listed as outstanding checks and are subtracted from the bank statement balance to determine the correct bank balance.

C. If charges have been made by the bank, a memorandum or other document should accompany the bank statement identifying the purpose and amount of the charge. If the charge is correct, an adjusting entry should be made both on the check stub and in the cash account.

D. Additional variances between the bank statement balance and the depositor's cash account and check stub balance may be caused by errors on the part of either the bank or the depositor. Therefore, the nature of such an error will determine the action necessary in order to reconcile the bank statement with the check stub and cash account balance.

The form used to reconcile the bank statement balance with the cash account balance and check stub balance may vary. However, a number of advantages result when the reconciliation form adjusts, if necessary, both the bank statement balance and the cash account balance in order that the corrected bank balance and the corrected cash account balance can be reconciled. The corrected balance of the cash account would appear on the trial balance and on the financial statements prepared at the end of each month. An illustration of a bank reconciliation problem is as follows:

> Assume that the bank statement of the New School District with the First National Bank as of May 31, 19--, shows a balance of $5,020. The check stub balance and cash account balance as of May 31, 19--, show $4,839. A deposit of $3,946.30 is in transit, having been recorded by the New School District as deposited. Outstanding checks were as follows: no. 1027, $194.60; no. 1231, $1,862.30; no. 1234, $10.10; no. 1235, $44.60. The bank statement showed collec tion of a note receivable, face, $2,000, and interest, $20. Bank charges for printing checks, $10.30, and a service charge for collection of the note, $3.00, were not recorded on the books of the New School District. The New School District recorded check no. 1216 for $232, but it was paid in the amount of $223 by the bank in payment of account payable to R. Smith & Co.

NEW SCHOOL DISTRICT
Bank Reconciliation, First National Bank
May 31, 19....

Balance per bank statement		$5,020.00
Add:		
Deposit in transit, May 31, 19....		3,946.30
Total		$8,966.30
Deduct:		
Outstanding checks:		
No. 1027	$ 194.60	
No. 1231	1,862.30	
No. 1234	10.10	
No. 1235	44.60	2,111.60
Corrected bank balance		$6,854.70
Balance per check stub and cash account		$4,839.00
Add:		
Collection of $2,000 note receivable plus $20 interest	$2,020.00	
Error in recording check no. 1216 as $232 instead of $223	9.00	2,029.00
Total		$6,868.00
Deduct:		
Collection charge for note	$ 3.00	
Bank check printing charge	10.30	13.30
Correct check stub and cash account balance		$6,854.70

From the bank reconciliation, it is necessary to record adjusting entries to correct the cash account balance as follows:

Cash	2,029.00	
Notes receivable		2,000.00
Revenue from interest		20.00
Accounts payable, R. Smith & Co.		9.00
To record collection of note plus interest and correct error in recording check no. 1216.		
Supplies	10.30	
Dues and fees	3.00	
Cash		13.30
To record collection charge and printing costs for bank checks.		

ILLUSTRATIVE INTERIM FINANCIAL STATEMENTS

The following is an example of the kind of financial statements that each school board should receive at the end of each month. The illustration is restricted in this chapter to the general fund.

Exhibit A

SCHOOL DISTRICT
General Fund
Interim Balance Sheet
(Date During Fiscal Year)

Assets and Resources				
Assets:				
Cash (see schedule 1)				$258,354
Accounts receivable:				
From the state			$ 19,038	
From the federal government			4,674	
From other school district funds			10,702	34,414
Taxes receivable, 19X2			$ 128,072	
Less estimated uncollectible taxes, 19X2			7,000	121,072
Taxes receivable, 19X1			$ 53,996	
Less estimated uncollectible taxes, 19X1			7,000	46,996
Inventory of supplies				23,722
Prepaid insurance				10,901
Resources:				
Estimated revenue			$3,485,224	
Less revenue			3,481,759	3,465
Total assets and resources				$498,924
Liabilities and Fund Equity				
Liabilities:				
Vouchers payable			$ 70,000	
Due to other funds			3,360	
Total liabilities				$ 73,360
Fund Equity:				
Appropriated:				
Reserve for encumbrances			$ 234,688	
Reserve for inventory			23,722	
Appropriations		$3,475,224		
Less: Expenditures	$3,078,280			
Encumbrances	234,688	3,312,968	162,256	
Total appropriated			$ 420,666	
Unappropriated:				
Fund equity, July 1, 19X1			4,898	
Total fund equity				425,564
Total liabilities and fund equity				$498,924

Exhibit B

SCHOOL DISTRICT
General Fund
Interim Statements Comparing Budget Revenue with Actual to Date and Appropriations with Expenditures and Encumbrances to Date
(For .... month period ending ....)

	See Schedule Number	Budgeted Estimated	Actual to Date		Unrealized Balance
Revenue:					
From local sources	2	$1,658,192	$1,647,533	Under	$ 10,659
From state sources, direct	2	1,763,835	1,773,346	Over	(9,511)
From state sources, redistribution of federal funds	2	35,595	26,509	Under	9,086
From intermediate sources, Redistribution of federal funds	2	1,275	–	Under	1,275
From federal sources	2	2,874	9,200	Over	(6,326)
From other school districts in the state	2	23,453	25,171	Over	(1,718)
Total revenue	2	$3,485,224	$3,481,759	Under	$ 3,465

		Appropriations	Expenditures	Encumbrances	Unencumbered Balance
Expenditures:					
Instruction – elementary	3	$1,782,132	$1,467,843	$156,824	$157,465
Instruction – secondary	3	817,006	783,984	31,098	1,924
Instruction – special education	3	98,471	98,471	–	–
Instruction – summer school	3	23,000	–	23,000	–
Instruction – Title I	3	23,601	23,400	–	201
Instruction – federal grant	3	6,118	6,118	–	–
Administration	3	134,604	126,898	7,706	–
Transportation	3	58,486	51,742	5,000	1,744
Operation of plant	3	332,756	328,642	3,675	439
Maintenance of plant	3	36,038	34,750	985	303
Fixed charges	3	106,430	99,850	6,400	180
Capital outlay	3	26,415	26,415	–	–
Debt service	3	28,120	28,120	–	–
Tuition to other school districts in the state	3	2,047	2,047	–	–
Total expenditures		$3,475,224	$3,078,280	$234,688	$162,256
Excess revenues over expenditures		$ 10,000			

Schedule 1

SCHOOL DISTRICT
General Fund
Interim Statement of Cash Receipts and Disbursements
as of (date)

Cash balance, July 1, 19X1		$ 288,798
Add:		
Cash receipts to date		3,269,842
Cash available for use		$3,558,640
Less:		
Cash disbursement to date		3,300,286
Cash balance (date)		$ 258,354

Reconciliation

Balance per bank statement		$ 864,487
Add:		
Deposit in transit		76,842
Total		$ 941,329
Less Outstanding Checks:		
Number 1096	$ 25	
1097	234,650	
1099	150,782	
1101	146,812	
1104	150,706	682,975
Cash balance (date)		$ 258,354

Schedule 2

SCHOOL DISTRICT
General Fund
Schedule of Revenues
Actual Compared with Estimated
(For .... months period ended ....)

Local sources:	Estimated	Actual	Unrealized
Property taxes	$1,620,166	$1,620,166	$ –
Interest on delinquent taxes	5,094	4,567	527
Other taxes	4,466	4,500	(34)
Recovery of taxes previously written off	112	–	112
Income on investments	19,400	10,000	9,400
Rent from facilities	1,920	1,500	420
Tuition from summer school	6,224	5,300	924
Miscellaneous	810	1,500	(690)
Total	$1,658,192	$1,647,533	$ 10,659
State sources, direct:			
State aid	$1,747,725	$1,757,886	$ (10,161)
Driver education	16,110	15,460	650
Total	$1,763,835	$1,773,346	$ (9,511)
State sources – redistribution of federal funds:			
Vocational education	$ 2,928	$ 2,908	$ 20
Title I	26,760	23,601	3,159
OEO project	5,907	–	5,907
Total	$ 35,595	$ 26,509	$ 9,086
Intermediate sources – Redistribution of federal funds:			
Head Start	$ 1,275	$ –	$ 1,275
Federal sources:			
National Education Act	$ 2,874	$ 9,200	$ (6,326)
Other school districts in the state:			
Special education reimbursement	$ 23,453	$ 25,171	$ (1,718)
Total revenue	$3,485,224	$3,481,759	$ 3,465

Schedule 3

SCHOOL DISTRICT
General Fund
Statement of Appropriations
Compared with Expenditures and Encumbrances
(For .... month period ended ....)

Instruction – elementary	Appropriation	Expenditure	Encumbrances	Unencumbered Balance
Principals' salaries	$ 100,475	$ 92,435	$ 2,680	$ 5,360
Regular teachers	1,533,342	1,290,216	114,320	128,806
Substitute teachers	31,286	30,247	640	399
Librarian salaries	12,032	4,114	4,918	3,000
Guidance salaries	12,289	3,598	4,691	4,000
Secretarial and clerical salaries	31,820	19,810	6,210	5,800
Other salaries	46	46	–	–
Contracted services	478	478	–	–
Textbooks	12,135	2,935	7,200	2,000
Teaching supplies	33,554	20,939	9,165	3,450
Library books and periodicals	6,943	1,243	4,200	1,500
Audio-visual supplies	2,144	250	1,244	650
First-aid supplies	30	4	26	–
Office supplies	2,951	1,451	900	600
Miscellaneous supplies	150	–	30	120
Travel expenses	1,494	77	600	817
Miscellaneous expenses	963	–	–	963
Total	$1,782,132	$1,467,843	$ 156,824	$ 157,465
Instruction – secondary				
Principals' salaries	$ 28,800	$ 27,100	$ 1,700	$ –
Regular teachers	636,145	620,030	16,007	108
Substitute teachers	6,514	4,490	1,180	844
Librarian salaries	9,779	8,970	649	160
Guidance salaries	57,634	55,500	2,134	–
Secretarial and clerical salaries	38,354	36,864	1,304	186
Contracted services	1,648	1,286	362	–
Teaching supplies	17,107	14,875	2,038	194
Library books and periodicals	8,123	5,023	3,085	15
Audio-visual supplies	4,980	4,480	451	49
Office supplies	2,757	1,521	1,009	227
First-aid supplies	25	25	–	–
Miscellaneous supplies	400	300	44	56
Travel expenses	1,290	120	1,135	35
Rental of equipment	50	50	–	–
Graduation expense	2,000	2,000	–	–
Miscellaneous expense	1,400	1,350	–	50
Total	$ 817,006	$ 783,984	$ 31,098	$ 1,924

Schedule 3
Page 2

Instruction – special education	Appro-priation	Expen-diture	Encum-brances	Unencum-bered Balance
Supervisor	$ 14,488	$ 14,488	–	–
Regular teachers	72,960	72,960	–	–
Substitute teachers	650	650	–	–
Secretarial and clerical	6,948	6,948	–	–
Teaching supplies	1,650	1,650	–	–
Office supplies	250	250	–	–
Travel expenses	1,500	1,500	–	–
Miscellaneous expense	25	25	–	–
Total	$ 98,471	$ 98,471	–	–
Instruction – summer school				
Summer school	$ 23,000	$ –	$ 23,000	$ –
Instruction – Title I				
Title I salaries	$ 23,000	$ 23,000	–	$ –
Title I supplies	601	400	–	$ 201
Total	$ 23,601	$ 23,400	$ –	$ 201
Instruction – federal grant				
Federal grant	$ 6,118	$ 6,118	$ –	$ –
Administration				
Board salaries	$ 1,700	$ 1,500	$ 200	$ –
Salaries, administrative	68,470	65,464	3,006	–
Salaries, clerical	33,666	31,726	1,940	–
Contracted services	12,995	11,395	1,600	–
Office supplies	4,580	4,420	160	–
Miscellaneous supplies	35	35	–	–
In-service training supplies	100	100	–	–
Travel expenses	3,427	3,045	382	–
Rental of equipment	150	120	30	–
Printing	300	300	–	–
School election expense	6,080	6,080	–	–
Miscellaneous expense	3,101	2,713	388	–
Total	$ 134,604	$ 126,898	$ 7,706	$ –
Transportation				
Drivers' salaries	$ 37,504	$ 34,138	$ 2,672	$ 694
Contracted transportation	923	713	210	–
Gas, oil, grease	5,174	3,935	1,130	109
Tires, tubes, batteries	1,560	1,216	137	207
Repair – parts	4,024	3,866	158	–
Repair – labor	6,036	5,260	142	634
Insurance	2,464	2,064	384	16
Miscellaneous expense	801	550	167	84
Total	$ 58,486	$ 51,742	$ 5,000	$ 1,744

Schedule 3
Page 3

	Appropriation	Expenditure	Encumbrances	Unencumbered Balance
Operation of plant				
Salaries	$ 204,428	$ 203,404	$ 1,002	$ 22
Contracted services	914	914	–	–
Vehicle repair	2,856	2,840	–	16
Heating	47,431	47,277	100	54
Water and sewer	7,207	7,100	57	50
Electricity	42,711	41,901	709	101
Telephone	8,999	8,526	390	83
Custodial supplies	12,010	11,987	20	3
Supplies – grounds	100	70	30	–
Travel	800	687	113	–
Rental of equipment	5,200	3,836	1,254	110
Miscellaneous expense	100	100	–	–
Total	$ 332,756	$ 328,642	$ 3,675	$ 439
Maintenance of plant				
Contracted services – grounds	$ 2,101	$ 2,075	$ –	$ 26
Contracted services – buildings	8,499	7,650	710	139
Contracted services – equipment	5,666	5,666	–	–
Supplies – grounds	2,087	1,967	90	30
Supplies – buildings	10,185	10,017	80	88
Supplies – equipment	2,917	2,900	–	17
Salaries	4,558	4,450	105	3
Miscellaneous expense	25	25	–	–
Total	$ 36,038	$ 34,750	$ 985	$ 303
Fixed charges				
Property insurance	$ 8,995	$ 7,980	$ 1,015	$ –
Employee insurance	4,373	3,352	996	25
Teacher insurance	49,602	47,565	1,930	107
Other insurance	1,000	363	624	13
Rent of land and buildings	35,870	35,490	380	–
Interest, short-term debt	6,590	5,100	1,455	35
Total	$ 106,430	$ 99,850	$ 6,400	$ 180
Capital outlay				
Replacement of equipment	$ 26,415	$ 26,415	$ –	$ –
Debt service				
Principal of debt	$ 25,000	$ 25,000	$ –	$ –
Interest of debt	3,120	3,120	–	–
Total	$ 28,120	$ 28,120	$ –	$ –
Tuition to other school districts in the state				
Tuition	$ 2,047	$ 2,047	$ –	$ –
Total expenditures	$3,475,224	$3,078,280	$ 234,688	$ 162,256

INTERIM FINANCIAL REPORT OF THE GENERAL FUND

At the close of each month a financial statement should be prepared for the chief administrative officer and for each member of the board before the month's business meeting. As illustrated for the general fund, the interim report should contain:

Exhibit A	Interim balance sheet
Exhibit B	Interim statement comparing: Budgeted revenue with actual revenue to date. Expenditures and encumbrances compared with appropriations to date.
Schedule 1	Interim statement of cash receipts and disburse ments and bank reconciliation.
Schedule 2	Interim schedule of revenues, comparing actual revenue realized to date with budgeted or estimated revenue. This schedule should be supported by the subsidiary revenue ledger which contains an account for each source of revenue to the general fund.
Schedule 3	Interim statement or schedule of appropriations, comparing the amount authorized for each purpose with actual expenditures and encumbrances chargeable to that appropriation. The schedule should be supported by the general fund's subsidiary expenditures ledger which contains an account for each of the expenditures authorized by the board.

An additional interim report which projects what revenues and expenditures are reasonably anticipated for the remainder of the year can be a most valuable management device. Through the use of interim financial statements, effective budgetary control can be maintained by administrative officers and by the school board during the accounting period when administrative action is required and when policy decisions have to be made by the board.

These technical financial statements require a financial commitment on the part of boards of education sufficient either to employ accountants competent to produce them on an interim basis or to provide an educational opportunity for administrative officers and staff members to learn how to prepare interim financial statements on a timely, complete, and meaningful basis. Without such standards, losses, waste, embezzlement and other unfortunate circumstances can develop and exist without knowledge of the board and its administrative officers. This kind of financial statement is in keeping with standards recommended by the Governmental Accounting Standards Board, the Governmental Finance Officers Association of the United States and Canada, the Association of School Business Officials of the U. S. and Canada, the American Institute of Certified Public Accountants, and the National Center for Education Statistics.

ILLUSTRATIONS OF YEAR-END FINANCIAL STATEMENTS FOR THE GENERAL FUND

Illustrations of the use of the five principal financial statements which present the financial position and the results of operation of the general fund are shown on the following pages. The five financial statements are:

Exhibit A	Balance sheet
Exhibit B	Analysis of changes in fund balance
Exhibit C	Statement of revenue
Exhibit D	Statement of expenditures
Exhibit E	Statement of changes in financial position

(Exhibits B, C, and D may be presented in one statement.)

Reference is also made to Chapter 9 in which the section entitled "Accompanying Financial Statements" identifies those needed for the preparation of Comprehensive Annual Financial Reports in its Statement 1. Illustrations are presented in the following examples from some school districts that have earned the Certificate of Excellence in Financial Reporting from ASBO.

Exhibit A

General Fund
Balance Sheet
June 30, 19....

Assets			
Cash			
Cash in Bank of America		$ 54,453.48	
Cash in First National Bank		130,622.45	
Cash with assessor-collector		5,855.23	
Total cash			$ 190,931.16
Investments			
Cash on time deposits			4,849,618.84
Receivables			
Returned checks		$ 40.00	
Delinquent taxes	$687,462.97		
Less allowance for delinquent taxes	687,462.97		
Due from state		$102,432.50	
Due from employees		236.81	
Due from professional organizations		4.00	
Interest receivable		127,986.18	
Total receivables			230,699.49
Inventories			
Inventory			13,226.96
Total assets			$5,284,476.45
Liabilities, Reserves, and Fund Balance			
Current liabilities			
Accounts payable			33,044.10
Other current liabilities:			
Due to Internal Revenue Service		$ 13,797.72	
Due to teacher retirement		9,466.50	
Due to Blue Cross		16,158.15	
Due to life insurance companies		4,213.83	
Due to annuity companies		8,307.74	
Due to credit union		214.02	
Deferred income		1,890.00	
Bus warrants payable		251,244.80	
Other		6,400.67	
Total current liabilities			311,693.43
Due to other funds:			
Due to Enterprise Fund		$ 34,681.64	
Due to Special Revenue Fund		23,243.88	
Due to cafeteria fund		70,015.21	
Due to athletic fund		24,845.60	
Total due to other funds			152,786.33
Fund balance			
Reserve for investment in inventory		$ 13,226.96	
Fund balance (Exhibit B)		4,773,725.63	4,786,952.59
Total liabilities, reserves, and fund balance			$5,284,476.45

Exhibit B

General Fund
Analysis of Changes in Fund Balance
for year ended June 30, 19....

Balance, July 1, 19....				$2,707,983.27
Additions				
Excess of revenue over expenditures				
Revenue (Exhibit C)	$22,385,567.92			
Expenditures (Exhibit D)	20,233,768.49			
Excess		$2,151,799.43		
Cancelled purchase orders		2,398.77		
Decrease in non-funded debt		131,648.20		
Transfer from other funds		106,250.00		
Total additions			$2,392,096.40	
Deductions				
Increase in inventories		$ 7,378.61		
Unreimbursed expenditures		32,414.63		
Transfer to Enterprise Fund		286,560.80		
Total deductions			326,354.04	
Net increase				2,065,742.36
Balance at June 30, 19.... (Exhibit A)				$4,773,725.63

Exhibit C

General Fund
Statement of Revenue
for year ended June 30, 19....

Local sources	*Actual Revenue*
Local maintenance tax	$10,068,698.98
Tuition from patrons	45,596.54
Earnings from temporary deposits and investments	337,424.58
Rent from school facilities	25,752.00
Tax collection services	31,567.41
Tax certificates	8,644.00
Miscellaneous	59,336.42
Total revenue from local sources	$10,577,019.93
Intermediate sources	
County available	$ 135.73
Federal flood control	3,143.23
Region IV, Education Service Center	16,966.82
Total revenue from intermediate sources	$ 20,245.78
State sources	
Per capita apportionment	$ 4,252,242.02
Minimum foundation	7,189,891.00
Minimum foundation – transportation	137,484.70
Vocational computer services	5,445.64
Supplemental salary aid	75,165.00
Student teacher supervision – salaries	32,500.00
Student teacher supervision – supplies	7,000.00
Teacher sick leave	63,330.00
Educational television	25,243.85
Total revenue from state sources	$11,788,302.21
Total General Fund revenue (Exhibit B)	$22,385,567.92

Exhibit D

General Fund
Statement of Expenditures
for year ended June 30, 19....

Function/Object	*Expenditures*
Instruction	
Salaries	$12,896,127.88
Purchased & contracted services	49,434.62
Supplies & materials	277,854.46
Other operating expense	—
Capital outlay	6,529.62
Total instruction	$13,229,946.58
Instruction related services	
Salaries	$ 525,045.54
Purchased & contracted services	14,708.30
Supplies & materials	31,982.60
Other operating expense	28,453.70
Total instructional related services	$ 600,190.14
Instructional resources & media services	
Salaries	$ 364,580.28
Purchased & contracted services	4,927.60
Supplies & materials	163,829.80
Other operating expense	39,704.29
Capital outlay	6,529.62
Total instructional resources & media services	$ 637,015.84
School administration	
Salaries	$ 1,037,639.15
Purchased & contracted services	17,958.89
Supplies & materials	36,216.30
Other operating expense	14,675.16
Capital outlay	4,369.84
Total school administration	$ 1,110,859.34
Guidance & testing	
Salaries	$ 462,349.99
Purchased & contracted services	18,034.44
Supplies & materials	17,874.74
Other operating expense	—
Total guidance & testing	$ 498,259.17
Health services	
Salaries	$ 149,689.21
Supplies & materials	4,425.93
Other operating expense	1,017.27
Total health services	$ 155,132.41
Attendance services	
Salaries	$ 1,751.43
Purchased & contracted services	—
Supplies & materials	304.60
Total attendance services	$ 2,056.03

Exhibit D
page 2

Pupil transportation	
Salaries	$ 440,523.74
Purchased & contracted services	4,014.65
Supplies & materials	136,640.05
Other operating expense	51,573.68
Capital outlay	–
Total pupil transportation	$ 632,752.12
Co-curricular activities	
Supplies & materials	$ 55,538.08
Other operating expense	2,427.35
Capital outlay	10,000.00
Total co-curricular activities	$ 67,965.43
General administration	
Salaries	$ 546,513.07
Purchased & contracted services	69,516.67
Supplies & materials	79,982.74
Other operating expense	179,680.79
Debt service – local fund	149,422.60
Total general administration	$ 1,025,115.87
Plant operation	
Salaries	$ 967,071.90
Purchased & contracted services	571,952.21
Supplies & materials	67,098.95
Other operating expense	4,861.52
Capital outlay	4,005.20
Total plant operation	$ 1,614,989.78
Plant maintenance	
Salaries	$ 287,048.23
Purchased & contracted services	143,748.65
Supplies & materials	149,100.47
Other operating expense	29,327.52
Capital outlay	14,260.91
Total plant maintenance	$ 623,485.78
Total General Fund expenditures (Exhibit B)	$20,233,768.49

Exhibit E

General Fund
Statement of Changes in Financial Position
for the year ended June 30, 19....

Resources provided:		
From revenues (Exhibit C)		$22,385,567.92
From reduction in assets:		
Cash in First National Bank	$ 122,153.13	
Due from employees	5,624.10	
Inventories	4,517.41	
Interest receivable	298.54	132,593.18
From increasing liabilities:		
Accounts payable	$ 527.27	
Due to teacher retirement	9,891.51	
Deferred income	4,650.87	15,069.65
Total resources provided		$22,533,230.75
Resources applied:		
To expenditures of school system (Exhibit D)		$20,233,768.49
To increase assets		
Cash in Bank of America	$ 5,641.54	
Interest receivable	36,410.04	42,051.58
To reduction in liabilities:		
Due to Blue Cross		95,999.40
Due to Internal Revenue Service		2,161,411.28
Total resources applied		$22,533,230.75

The following complete set of financial statements for the general fund which is identified as the Maintenance and Operation Fund is taken from the Salt Lake City, Salt Lake City, Utah, Comprehensive Annual Financial Report for the year ending June 30, 1981.

MAINTENANCE AND OPERATION FUND
(The General Fund)

Comparative Balance Sheet
June 30, 1981 and 1980

	1981	1980
ASSETS		
Cash in bank	$ 7,004	$ 18,578
Investments, at cost, plus accrued interest	11,269,288	13,302,814
Accounts receivable:		
Local sources	151,089	215,430
State of Utah	339,995	1,091,544
Federal government	1,234,217	1,131,666
Total	1,725,301	2,438,640
Delinquent property taxes receivable, net (Note 3)	1,290,835	1,032,195
Due from other funds:		
Capital Projects	99,724	13,227
Warehouse	33,851	9,944
Audio Visual Repair Lab	44,757	25,522
Recreation	15,899	—
School Food Service	252,330	393,865
Total	446,561	442,558
Inventories:		
Maintenance supplies	353,976	347,848
School supplies	437,935	411,274
Total	791,911	759,122
House construction prepaid expenditures	46,764	81,994
Prepaid expenditures	551,625	389,934
Total	$16,129,290	$18,465,835

MAINTENANCE AND OPERATION FUND
(The General Fund)

Comparative Balance Sheet
June 30, 1981 and 1980

	1981	1980
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	$ 1,443,662	$ 3,309,153
Accrued payroll	7,698,525	7,013,132
Accrued vacation payable	351,450	329,863
Accrued insurance payable	894,662	684,345
Early retirement compensation payable	141,500	174,900
Deferred revenue:		
Property taxes	1,768,410	957,067
State programs	664,106	317,410
Federal programs	49,736	57,506
Other	20,142	90,063
Total Liabilities	13,032,193	12,933,439
Fund Balance:		
Reserved:		
Encumbrances	43,698	59,269
P.L. 874 Revenue reserved for succeeding year's budget	125,514	147,833
Unreserved:		
Designated for general contingencies	754,000	754,000
Unappropriated	2,173,885	4,571,294
Total Fund Balance	3,097,097	5,532,396
Total	$16,129,290	$18,465,835

See notes to financial statements.

MAINTENANCE AND OPERATION FUND
(The General Fund)

Comparative Statement of Revenues, Expenditures and Changes in Fund Balance

Years Ended June 30, 1981 and 1980

	1981	1980
Revenues:		
Property taxes	$22,240,934	$20,657,555
Interest on investments	1,563,598	1,455,323
Other local revenue	786,699	675,867
State of Utah	16,923,733	16,725,356
Federal government	4,613,702	4,128,587
Total Revenues	46,128,666	43,642,688
Expenditures:		
Administration	615,194	596,877
Instruction	29,463,761	26,106,733
Attendance-Health Services	393,715	325,743
Pupil transportation	597,151	469,558
Operation of plant	4,066,039	3,696,355
Maintenance of plant	1,571,105	1,342,339
Fixed charges	9,652,838	8,303,479
Student body activities	67,704	63,149
Community services	2,136,458	2,102,422
Total Expenditures (Note 2)	48,563,965	43,006,655
Excess (deficiency) of Revenues over Expenditures	(2,435,299)	636,033
Fund Balances Unappropriated—July 1	4,571,294	3,919,362
Decrease (increase) in reserve for encumbrances	15,571	(10,899)
Decrease in P.L. 874 Revenue reserved for succeeding year's budget	22,319	138,798
Increase in funds designated for general contingencies	—	(112,000)
Fund Balances Unappropriated—June 30	$ 2,173,885	$ 4,571,294

MAINTENANCE AND OPERATION FUND
(The General Fund)

Schedule of Revenues—Budget and Actual
Year Ended June 30, 1981
With Comparative Actual Amounts for Year Ended June 30, 1980

	1981			1980
	Budget	Actual Revenue	Variance-Favorable (Unfavorable)	Actual Revenue
Local Sources:				
Property taxes	$22,578,987	$22,240,934	$ (338,053)	$20,657,555
Interest from investments	1,510,000	1,563,598	53,598	1,455,323
Tuitions	135,831	141,760	5,929	111,406
Rental of school property	151,673	157,055	5,382	189,971
Transportation	10,000	12,864	2,864	15,644
Sale of obsolete equipment	27,000	27,555	555	21,296
Columbus workshop	328,265	333,681	5,416	263,268
Transfer from other districts	10,679	14,836	4,157	4,032
Other local revenue	97,120	98,948	1,828	70,250
Total	24,849,555	24,591,231	(258,324)	22,788,745
State Sources:				
State equalization aid	7,679,899	7,033,395	(646,504)	8,373,609
Social security reimbursement	2,104,681	2,135,860	31,179	1,795,661
Retirement reimbursement	4,463,729	4,522,086	58,357	4,012,888
Pupil transportation	607,622	551,016	(56,606)	390,584
Educational transportation	44,652	41,713	(2,939)	54,005
Extended day-year	64,798	60,656	(4,142)	62,940
Community school	56,335	53,673	(2,662)	55,694
Instructional media	45,911	43,842	(2,069)	49,093
Driver's education	156,147	150,267	(5,880)	140,160
Elementary music	35,637	38,882	3,245	35,069
Utilities and insurance	362,536	350,405	(12,131)	311,797
Career development	20,937	20,770	(167)	21,553
Compensatory education	163,732	161,847	(1,885)	168,022
Textbook and lab fees	211,204	204,912	(6,292)	185,446
Elementary guidance	53,540	51,343	(2,197)	58,089
Gifted and talented	43,000	43,000	—	39,100
Bilingual	65,879	65,858	(21)	39,690
Class size reduction	340,630	338,405	(2,225)	303,862
Special needs	384,134	373,548	(10,586)	154,587
Responsible parenthood	16,315	16,315	—	12,600
Vocational rehabilitation	138,952	109,802	(29,150)	102,637
Family services	278,433	278,433	—	258,721
Youth in custody	157,852	159,273	1,421	59,216
Alcohol education project	22,788	23,490	702	15,206
Young audiences	45,000	45,000	—	—
Other state revenue	53,697	49,942	(3,755)	25,127
Total	17,618,040	16,923,733	(694,307)	16,725,356

MAINTENANCE AND OPERATION FUND
(The General Fund)

Schedule of Revenues—Budget and Actual—Concluded
Year Ended June 30, 1981
With Comparative Actual Amounts for Year Ended June 30, 1980

	1981			1980
	Budget	Actual Revenue	Variance-Favorable (Unfavorable)	Actual Revenue
Federal Sources:				
Vocational Education	$ 186,902	$ 186,902	$ —	$ 206,275
ESEA Title I	1,690,064	1,554,314	(135,750)	1,489,931
ESEA Title IV-B Media	95,975	95,975	—	63,690
ESEA Title III	12,135	12,135	—	37,865
ESEA Title IV	33,224	25,960	(7,264)	34,807
ESEA Title VII	177,738	177,738	—	154,872
Manpower Development	175,848	163,870	(11,978)	96,876
Adult Education	94,020	94,307	287	80,462
Developmental Continuity	98,850	98,606	(244)	95,833
Indian Education	70,385	64,324	(6,061)	36,344
Indochinese Education	474,432	459,067	(15,365)	47,424
Project Head Start	462,506	453,164	(9,342)	356,500
Project Follow Through	216,636	216,636	—	311,290
Public Law 874	197,272	250,199	52,927	227,367
ESAA Title VII	86,557	86,557	—	235,529
ROTC	17,500	19,339	1,839	15,878
Developmentally Disabled	9,065	9,106	41	16,483
Consumer Education	—	—	—	52,597
Education for All Handicapped	550,496	529,704	(20,792)	546,951
Handicapped P.L. 91-230	79,285	84,773	5,488	—
Other federal revenue	31,098	31,026	(72)	21,613
Total	4,759,988	4,613,702	(146,286)	4,128,587
Grand Total	$47,227,583	$46,128,666	$(1,098,917)	$43,642,688

MAINTENANCE AND OPERATION FUND

(The General Fund)

Schedule of Expenditures and Encumbrances
Compared with Budget Year Ended June 30, 1981
With Comparative Actual Amounts for Year Ended June 30, 1980

	1981					1980
	Budget	Expenditures	Encumbrances	Total Expenditures & Encumbrances	Variance Favorable (Unfavorable)	Total Expenditures & Encumbrances
ADMINISTRATION						
Salaries:						
Board of Education	$ 8,400	$ 8,400	$ —	$ 8,400	$ —	$ 8,304
Administration offices	468,969	473,930	—	473,930	(4,961)	460,912
Accrued vacation expenditures	3,000	4,030	—	4,030	(1,030)	2,111
Total	$ 480,369	$ 486,360	$ —	$ 486,360	$ (5,991)	$ 471,327
Contracted services	24,107	24,130	—	24,130	(23)	20,870
Other administration expenditures	101,139	103,704	1,353	105,057	(3,918)	105,544
Total	$ 605,615	$ 614,194	$1,353	$ 615,547	$ (9,932)	$ 597,741
INSTRUCTION						
Salaries:						
Principals	1,489,870	1,488,281	—	1,488,281	1,589	1,350,687
Consultants and supervisors	582,911	567,597	—	567,597	15,314	460,088
Teachers	20,733,615	20,720,587	—	20,720,587	13,028	18,350,105
Certified media personnel	829,071	830,250	—	830,250	(1,179)	731,295
Guidance personnel	617,408	618,201	—	618,201	(793)	571,735
Psychological personnel	83,100	83,145	—	83,145	(45)	119,556
Substitute personnel	212,557	235,551	—	235,551	(22,994)	193,931
Secretarial & clerical	1,027,717	1,020,476	—	1,020,476	7,241	865,914
Other salaries	1,069,234	1,040,757	—	1,040,757	28,477	879,390
Accrued vacation expenditures	2,000	(797)	—	(797)	2,797	17,957
Total	$26,647,483	$26,604,048	—	$26,604,048	$43,435	$23,540,658

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MAINTENANCE AND OPERATION FUND
(The General Fund)

Schedule of Expenditures and Encumbrances
Compared with Budget—Concluded
Year Ended June 30, 1981
With Comparative Actual Amounts for Year Ended June 30, 1980

	1981					1980
	Budget	Expenditures	Encumbrances	Total Expenditures & Encumbrances	Variance Favorable (Unfavorable)	Total Expenditures & Encumbrances
Teaching supplies:						
Textbooks	$ 450,338	$ 442,961	$ 1.739	$ 444,700	$ 5,638	$ 411,766
Library books	71,000	63,748	6,536	70,284	716	60,149
Periodicals	14,500	13,846	130	13,976	524	11,928
Audio-visual materials	132,500	127,784	4,023	131,807	693	91,153
Other media supplies	9,588	9,276	20	9,296	292	8,366
General classroom supplies	949,488	904,967	17,768	922,735	26,753	878,503
Total	$ 1,627,414	$ 1,562,582	$30,216	$ 1,592,798	$ 34,616	$ 1,461,865
Other instructional expenditures	1,322,616	1,263,572	4,797	1,268,369	54,247	1,104,616
Total	$29,597,513	$29,430,202	$35,013	$29,465,215	$132,298	$26,107,139
ATTENDANCE SERVICES						
Salaries	341,684	346,145	—	346,145	(4,461)	284,482
Accrued vacation expenditures	300	808	—	808	(508)	1,737
Other expenditures	10,340	9,898	1,220	11,116	(776)	7,460
Total	$ 352,324	$ 356,849	$ 1,220	$ 358,069	$ (5,745)	$ 293,679
HEALTH SERVICES						
Salaries	35,437	34,938	—	34,938	499	30,679
Other expenditures	1,750	1,928	43	1,971	(221)	1,385
Total	$ 37,187	$ 36,866	$ 43	$ 36,909	$ 278	$ 32,064

PUBLIC TRANSPORTATION						
Salaries	283,565	282,872	—	282,872	693	213,588
Accrued vacation expenditures	—	1,292	—	1,292	(1,292)	(875)
Contracted services	169,500	144,488	—	144,488	25,012	142,939
Insurance	29,969	30,407	—	30,407	(438)	15,064
Operating expenditures	125,088	138,058	—	138,058	(12,970)	98.876
Total	$ 608,122	$ 597,117	$ —	$ 597,117	$ 11,005	$ 469,592
OPERATION OF PLANT						
Salaries	$ 1,928,619	$ 1,941,998	$ —	$ 1,941,998	$(13,379)	$ 1,733,064
Accrued vacation expenditures	—	3,762	—	3,762	(3,762)	14,870
Contracted services	25,644	20,655	328	20,983	4,661	20,281
Heating	552,800	583,920	—	583,920	(31,120)	560,424
Other utilities	1,339,698	1,352,185	—	1,352,185	(12,487)	1,229,963
Supplies	128,360	162,731	9	162,740	(34,380)	138,467
Total	$ 3,975,121	$ 4,065,251	$ 337	$ 4,065,588	$(90,467)	$ 3,697,069
MAINTENANCE OF PLANT						
Salaries	916,609	920,598	—	920,598	(3,989)	809,733
Accrued vacation expenditures	1,000	2,885	—	2,885	(1,885)	4,888
Contracted services	274,965	257,911	1,421	259,332	15,633	230,563
Equipment replacement	169,452	149,447	—	149,447	20,005	121,437
Supplies	218,960	226,290	2,131	228,421	(9,461)	178,678
Total	$ 1,580,986	$ 1,557,131	$3,552	$ 1,560,683	$ 20,303	$ 1,345,299

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MAINTENANCE AND OPERATION FUND

continued from page 265

	1981					1980
	Budget	Expenditures	Encumbrances	Total Expenditures & Encumbrances	Variance-Favorable (Unfavorable)	Total Expenditures & Encumbrances
FIXED CHARGES						
State retirement	4,675,855	4,741,795	—	4,741,795	(65,940)	4,178,471
Social Security	2,204,586	2,240,204	—	2,240,204	(35,618)	1,865,161
Property insurance	(10,753)	(8,112)	—	(8,112)	(2,641)	48,835
Health insurance	1,933,961	1,995,020	—	1,995,020	(61,059)	1,642,772
Industrial insurance	49,000	46,372	—	46,372	2,628	58,491
Liability insurance	2,928	2,981	—	2,981	(53)	6,789
Fidelity bond insurance	2,005	2,005	—	2,005	—	1,893
Land & building rental	19,820	15,431	—	15,431	4,389	18,252
Unemployment compensation	55,000	55,290	—	55,290	(290)	41,655
Collection of taxes	426,000	413,943	—	413,943	12,657	306,248
Other fixed charges	146,921	147,909	—	147,909	(988)	134,912
Total	$ 9,505,923	$ 9,652,838	$ —	$ 9,652,838	$(146,915)	$ 8,303,479
STUDENT BODY ACTIVITIES	$ 74,000	$ 67,704	$ —	$ 67,704	$ 6,296	$ 63,149
COMMUNITY SERVICES						
Civic activities	96,990	99,704	—	99,704	(2,714)	87,877
Adult education	1,073,282	995,296	1,248	996,544	76,738	954,725
Adult vocational education	115,584	115,001	176	115,177	407	116,231
Headstart and Follow Through	733,346	721,217	733	721,950	11,396	763,423
Extended day/year	118,084	120,029	—	120,029	(1,945)	101,874
School volunteers	76,429	75,297	23	75,320	1,109	84,213
Total	2,213,715	2,126,544	2,180	2,218,724	84,991	2,108,343
Grand Total	$48,550,506	$48,504,696	$43,698	$48,548,394	$ 2,112	$43,017,554

Chapter 10
The General Fund

QUESTIONS

10-1 What requirements should be served by the accounting structure of a school system?

10-2 Why is the general fund the most important fund of a school system?

10-3 Why is the general fund said to be perpetual for a school system?

10-4 In what way is the general fund related to other funds of a school system?

10-5 Why is it common that salaries for the year be encumbered at the beginning of the budget period?

10-6 Why is a provision made for estimated uncollectible taxes by the school system at the time the tax levy is recorded?

10-7 Why is the statement of revenues, expenditures, and fund balance important to the local school board?

10-8 Under what conditions can a variance which is found to be unfavorable be remedied?

10-9 To be most useful, what columns should be provided on a revenue account to provide control of it during the fiscal period?

10-10 To be most useful, what columns should be provided on an expenditure account to provide control of it during the fiscal period?

10-11 Do variances between estimated and actual revenue and expenditure accounts affect the school system's year end balance sheet? If so, how?

CASES AND PROBLEMS

The following account titles and account numbers will be used in the problems and cases of chapter 10 where no other title or number is used:

Assets and Resources:	
Cash	101
Imprest (Petty) Cash	102
Taxes Receivable, 19-1	110
Estimated Uncollectible Taxes Receivable, 19-1	111
Taxes Receivable, 19-2	114
Estimated Uncollectible Taxes Receivable, 19-2	115
Interest and Penalties Receivable, 19-1	116
Estimated Uncollectible Interest and Penalties, 19-1	117
Interest and Penalties Receivable, 19-2	118
Estimated Uncollectible Interest and Penalties, 19-2	119
Due from School Food Service Fund	130
Estimated Revenues	301
Revenues	302
Liabilities:	
Tax Anticipation Notes Payable	407
Excess Collections Payable	408
Due to Other Fund	410
Due to Special Revenue Fund	411
Due to Debt Service Fund	412
Due to Capital Projects Fund	413
Due to Agency Fund	415
Due to Ad Valorem Tax Trust Fund	416
Unearned Revenue Collected in Advance	474
Fund Equity:	
General Fund Balance, Unappropriated	701
Budgeted fund balance	702
Reserve for Encumbrances	704
Revenue and Expenditure Summary	709
Appropriation:	
Appropriations	601
Expenditures	602
Encumbrances	603
Subsidiary Revenue Ledger:	
Ad Valorem Taxes	1110
Tuition from Pupils and Parents	1311
Penalties and Interest on Taxes	1190

Subsidiary Expenditure Ledger Accounts:

By Object:

Salaries	100
Employee Benefits	200
Repairs and Maintenance	323
Supplies	410
Interest	620

10-1 The following transactions took place in the general fund of Victory Village School System during the year beginning January 1, 19-1:

A. The following budget was adopted by the school board:

Estimated real property taxes	$300,000
Estimated penalties and interest	4,500
Estimated tuition	8,000
Appropriations:	
Operating supplies	100,000
Salaries	150,000
Repair and maintenance	50,500

B. Loaned $20,000 to the school food service fund.

C. Taxes of $325,000 were levied of which $17,000 are estimated to be uncollectible.

D. Received $8,000 by borrowing on open account from the special revenue fund.

E. Collected $275,000 from taxes assessed and levied in item C, above.

F. Paid contractor $25,000 for painting.

G. Collected $7,000 from tuition.

H. Issued an order for certain repair jobs estimated to cost $15,000.

I. Paid contractor for repairs ordered in H, above, $15,600.

J. Established a petty cash account to be operated under an imprest system by drawing a check for $75 payable to the petty cash custodian.

K. Collected $3,000 from penalties and interest.

L. Paid the amount owed to the special revenue fund on a short-term note.

M. Received $10,000 in partial payment of loan to the school food service fund.

N. Paid operating supplies invoices of $80,000 and salaries of $110,000.

INSTRUCTIONS:

Record the foregoing transactions in general journal form.

10-2. The following accounts of Victory Village School System's general fund have the balances indicated:

Cash	$ 10,400
Petty cash	100
Due from other funds	5,000
Taxes receivable	40,000
Estimated uncollectible taxes	20,000
Accounts payable	14,000
Due to other funds	5,000
Fund balance	12,000
Revenue: real property taxes	250,000
Revenue: business licenses and permits	9,000
Expenditure: repair and maintenance supplies	?
Revenue: fines and forfeits	2,500
Expenditures: salaries and wages	200,000
Expenditure: professional services	60,000
Estimated revenue: real property taxes	200,000
Estimated revenue: business license and permits	10,000
Estimated revenue: fines and forfeits	3,000
Appropriation—salaries	190,000
Appropriation—repair and maintenance supplies	60,000
Appropriation—professional services	100,000
Encumbrances	15,000
Reserve for encumbrances	15,000

INSTRUCTIONS:

Prepare a trial balance for the general journal as of February 28, 19--.

10-3. From the following list of the accounts in the general fund of Bernard Township School System, prepare an interim balance sheet as of December 31, 19--, supported by (1) a separate schedule to list estimated, actual and unrealized revenue by source and (2) a separate schedule to list appropriations, expenditures, encumbrances, and unencumbered balance by individual account. Totals on these supporting schedules appear on the interim balance sheet as of December 31, 19--.

Cash	$ 23,300
Petty cash	200
Due from other funds	20,000
Taxes receivable	80,000

Estimated uncollectible current real taxes	?
Vouchers payable	15,000
Due to other funds	5,000
Fund balance	20,000
Revenue: real property taxes	200,000
Revenue: business licenses and permits	13,000
Revenue: fines and forfeits	3,500
Expenditures: advertising	60,000
Expenditures: salaries and wages	250,000
Expenditures: capital outlay, land	110,000
Estimated revenue: real property taxes	200,000
Estimated revenue: business licenses and permits	10,000
Estimated revenue: fines and forfeits	4,000
Appropriation—salaries and wages	275,000
Appropriation—capital outlay, land	130,000
Appropriation—advertising	70,000
Encumbrances, capital outlay, land	20,000
Reserve for encumbrances	20,000

10-4. The accounts of the general fund of Bernard Township School System as of December 31, 19--, are as follows:

Cash	$ 23,300
Petty cash	200
Due from other funds	20,000
Taxes receivable	80,000
Estimated uncollectible taxes	26,000
Contracts payable	15,000
Due to other funds	5,000
Fund balance	20,000
Revenue: real property taxes	300,000
Revenue: non-business licenses and permits	13,000
Revenue: fines and forfeits	3,500
Expenditures: office supplies	44,000
Expenditures: salaries and wages	120,000
Expenditures: rentals	95,000
Estimated revenue: real property taxes	300,000
Estimated revenue: non-business licenses and permits	10,000
Estimated revenue: fines and forfeits	4,000
Appropriations—salaries	130,000
Appropriations—rentals	110,000
Appropriations—office supplies	54,000

INSTRUCTIONS:

Prepare: (1) a balance sheet; (2) a statement of revenues, estimated and actual; (3) a statement of appropriations and expenditures, and (4) a statement of fund balance for the year ended December 31, 19--, for the general fund of Bernard Township School System.

10-5. Record the following transactions, which occurred in the general fund during the year 19-2, in general journal form.

A. Ad valorem taxes were assessed and levied for the year 19-2 in the amount of $5,000,000. It is estimated that 1% will be uncollectible. Taxes collected by the general fund are to be distributed according to the following schedule: 15% to the special revenue fund; 10% to the debt service fund; 25% to the capital projects fund; 15% to the agency fund; and the remainder to the general fund as revenue.

B. The general fund collected proceeds from a six month, 8% tax anticipation note issued in the amount of $75,000 to finance its current operations until taxes are collected.

C. An error of $50,000 was discovered in the 19-2 ad valorem tax levy, an amount in excess of the correct assessment and levy. The overcharge was discovered prior to collection of any taxes.

D. 19-2 tax collections were $4,675,800. This included collections of $2,300 in excess of the assessment and levy. With the exception of $300, names of taxpayers and their addresses who have paid taxes in excess of the assessment and levy have been determined. Until names and addresses can be determined, state law requires that amounts collected from unknown sources in excess of the tax assessment and levy be deposited in an Ad Valorem Tax Trust Fund.

E. Penalties and interest on delinquent taxes were levied against 19-1 taxpayers in the amount of $3,530 of which $30 is estimated to be uncollectible.

F. Transferred tax collection proceeds to other funds, less 1% collection service charge.

G. Paid amount due on tax anticipation note due at maturity.

H. Amounts collected in excess of tax assessments and levy were refunded to taxpayers and the amount collected from unknown taxpayers was transferred to the ad valorem tax trust fund.

I. Taxes collected in advance of the 19-3 assessment and levy amounted to $36,000 and are to be held in the general fund.

J. Interest and penalties on 19-1 delinquent taxes of $1,525 were assessed of which $177 were estimated uncollectible. Interest and penalties on delinquent 19-2 taxes were assessed in the amount of $6,177, of which $225 were estimated uncollectible.

K. Collected $10,950 of 19-1 taxes receivable and $85,000 of 19-2 taxes receivable along with $300 of previously unrecorded penalties and interest. In addition, interest and penalties receivable, 19-1, in the amount of $2,250 and for 19-2, in the amount of $4,500 were collected.

L. Proper authorization was granted by the board of education to write off $13,700 of 19-1 taxes receivable and $21,500 of 19-2 taxes receivable.

10-6. The following is the trial balance of the Masonville School System at December 31, 19-2, midpoint of the system's fiscal year, and other information needed for the preparation of an interim financial report.

MASONVILLE SCHOOL SYSTEM
General Fund
Trial Balance
December 31, 19-2

Cash	$ 38,145	
Petty cash	2,000	
Taxes receivable – current	241,000	
Allowance for uncollected taxes – current		$ 38,950
Taxes receivable – prior years	56,300	
Allowance for uncollected taxes – prior years		43,150
Penalties and interest receivable	2,760	
Accounts receivable	20,180	
Due from other funds	72,560	
Due from state government	121,500	
Due from federal government	214,900	
Temporary investments	26,500	
Vouchers payable		26,530
Tax anticipation notes payable		8,500
Due to other funds		64,900
Reserve for encumbrances		396,530
Fund balance		161,215
Estimated revenues	978,000	
Appropriations		988,000
Revenues		965,000
Encumbrances	396,530	
Expenditures	522,400	
	$2,692,775	$2,692,775

Additional Information:

The cash balance at July 1, 19-2, was $41,650. Cash receipts as of the end of the balance sheet were $795,800, and disbursements were $799,305. At the balance sheet date there was a deposit on the books of the general fund for $6,150, not yet recorded by the bank. Bank charges of $5.00 had not been recorded by the general fund. The bank returned a check marked NSF for $30 which had been submitted on account.

Outstanding checks were no. 1716 for $61; no. 1721 for $325, and no. 1738 for $186. The bank statement balance was $32,532.

Tax revenues for the period were $151,500 actual, and $151,500 estimated for property taxes; $25,000 actual, and $26,350 estimated revenue in lieu of taxes; $7,000 actual, $7,750 estimated interest and penalties. State grants were estimated at $247,500 and were $253,500 actual. Federal grants received through the state were estimated at $253,000 and were $245,000 actual. Federal grants received directly were estimated at $291,900 and were $283,000 actual.

Expenditure accounts	Appropriation	Expenditure	Encumbrances
Wages and salaries:			
Regular	$501,043	$224,200	$276,843
Temporary	110,261	74,027	19,987
Overtime	1,256	807	
Employee benefits	79,040	44,262	29,723
Purchased services:			
Professional and technical services:			
Instructional services	32,604	19,710	12,590
Data processing services	16,302	9,662	2,338
Board of education	20,748	15,146	2,019
Other professional and technical services	11,856	5,268	5,000
Travel	19,266	9,440	815
Printing & binding	7,410	4,965	207
Public utilities	22,230	12,337	615
Rentals	17,784	8,536	8,517
Supplies and materials:			
Supplies	9,386	6,742	764
Textbooks	29,146	21,872	2,166
Library books	8,398	5,710	1,089
Other supplies & materials	2,470	1,938	156
Capital outlays:			
Land	20,000	12,400	4,620
Buildings	37,500	21,375	21,004
Equipment	31,420	19,254	7,875
Other expenses:			
Dues and fees	7,500	3,750	
Miscellaneous expenditures	2,380	999	202
	$988,000	$522,400	$396,530

INSTRUCTIONS:

Prepare (1) a bank reconciliation as of December 31, 19-2; (2) any necessary adjusting entries and post to the proper accounts; (3) interim financial statements, as illustrated in the text, using the information given above, as adjusted by adjusting entries.

11

SPECIAL REVENUE FUNDS

A special revenue fund is created by action of the board of education when a school system receives revenue from a special source designated to be used for one or more specific educational purpose which supplements the basic educational or foundation program. Emphasis is placed on the fact that to be a special revenue fund, the revenue must be designated for an educational program, not a supporting service.

Accounting for supporting services which operate, partially at least, on service charges—school food services, bookstores, newspapers, yearbooks, athletic programs, industrial arts programs such as automotive mechanics, building construction, etc.— is best segregated from the general fund and placed in enterprise funds. Internal services funds are designed to serve the accounting and reporting needs for central stores, central maintenance, central garage and automotive repair, central printing, central computer services, etc. Agency funds serve student activities, central treasury, and central payroll departments. These are supporting services rather than educational programs.

Although sources of revenue for special revenue funds may be similar to the sources of revenue of the general fund, a separate self-balancing group of accounts gives better financial control and a clearer picture of how the special sources of revenue are being used. This leaves the general fund clearly responsible for the basic educational program or foundation program only.

In 1968 GASB's Governmental Accounting, Auditing and Financial Reporting required accounting for all externally restricted resources in Special Revenue Funds. Its 1979 Statement 1 requires use of Special Revenue Funds only legally mandated such as in the case of governmental grants which mandate accounting records separate from the general fund. However, Special Revenue Funds may be used at the discretion of the Board of Education to provide a basis for better managerial control and public understanding.

Special revenue funds have been found to be particularly useful to school districts when new and/or different sources of revenue for educational programs are of a temporary nature. Use of a special revenue fund for temporary educational programs can prevent such revenue from being placed in the general fund where it could become commingled with and/or could give a distorted impression of the amount of money that is available for the basic educational program.

Special revenue funds require adoption of a budget by the board of education each year and, as a result, they require the use of budgetary accounts which serve special revenue funds in the same way that they serve the general fund. Accounting and reporting principles for enterprise funds are different. Enterprise funds do not use the formal budgetary accounts. Accounting for enterprise funds parallels commercial accounting in a significant way because enterprise funds use the profit or loss concept, a basis for remaining a self-supporting enterprise. This chapter illustrates those financial and managerial accounting and reporting principles that apply specifically to special revenue funds.

Among some accountants there still exists the concept that any fund can be a special revenue fund if it has special sources of revenue to be used for special or restricted purposes, regardless of whether it is an educational program or a supporting service. These advocates say that a fund, such as a school food services fund, can be either a special revenue fund or an enterprise fund. They maintain that the decision or choice should be based upon the sources and amounts of revenue from each source, i.e., if the majority of revenue comes from tax sources at the local, state, and/or federal level, it should be classified as a special revenue fund; but, if the majority of revenue comes from charges for services rendered, it should be classified as an enterprise fund.

Such a classification technique defeats good financial reporting: Since the ratio of revenue from service charges to revenue from tax sources can be determined only at the end of the fiscal period, interim financial reports may not be consistent with the annual report; comparing year to year operations of the school system is impossible when decisions are made to report a fund as a special revenue fund one year and as an enterprise fund the next; and, statistical comparisons among school districts is impossible when such fund shifts are made.

KINDS OF SPECIAL REVENUE FUNDS FOR EDUCATIONAL PROGRAMS

There may be any number of special revenue funds, each having a separate, self-balancing general ledger with subsidiary ledgers. Some may be required by statute or ordinance and others may be established through policies of governmental agencies at the federal, state, or local level. Others may be established by resolutions of the board of education for better administration. No fund or account group should be created unless by minutes of a meeting of the board of education. GASB's Statement 1 recommends that the number of funds should be kept to a minimum consistent with legal and operational requirements.

Special revenue funds may account for revenue from sources similar to the general fund's sources but they may also receive revenue from other sources which are restricted by the purposes for which expenditures can be made. To illustrate, the comprehensive annual financial report for the year ended June 30, 1981, Washington County School District No. 48, Beaverton, Oregon, included the Children's Service Fund and the Special Programs Fund as special revenue funds. It described the Children's Services Fund as "...- accounts for revenues and expenditures under an agreement with the State of Oregon, Department of Human Resources, Children Services Division for the purpose of providing an educational program to the children living at St. Mary's Home for Boys." The Special Programs Fund "accounts for revenues and expenditures of grants restricted for specific educational projects. Principal revenue sources are federal and state grants."

THE NATURE OF SPECIAL REVENUE FUNDS

When revenue for an educational program is not available for the basic educational program, it should be separated from the general fund to avoid the possibility of commingling assets arising from these restricted sources with assets that are available for general use.

Revenue from special sources for restricted use may come from tax sources and/or from nontax sources. All revenue for a supplementary educational program may come from tax sources but it may be more effectively handled by segregating it from revenue that can be used for the foundation program. If the nontax source is tuition, a special revenue fund should be created because tuition is a charge for instruction. If the nontax source is a user charge for goods or services other than instruction, such as the sale of school lunches, sale of bookstore supplies, subscriptions to newspapers or year books, a charge for automotive repair, or from other user charges, it may be more effectively accounted for through either an internal services fund, or an enterprise fund, a trust fund or an agency fund rather than a special revenue fund.

In some cases a fund may be created because revenue comes from activities sponsored by a group or class. When control over the purposes for which such revenues may be expended rests in the group sponsoring the activity, such a "fund" may better be classified as a "trust fund" or an "agency fund" as contrasted with a special revenue fund. Principles of accounting which apply to internal services funds, enterprise funds, trust funds, and agency funds are discussed later; mention of them at this point is necessary to help establish an understanding of the nature of special revenue funds.

ADVANTAGES OF SEPARATE SPECIAL REVENUE FUNDS

Many advantages may accrue to a school system by creating separate special revenue funds under certain circumstances. Although revenue may be from sources similar to those of the general fund, certain kinds of revenue may not be assured in future years. For instance, through federal grants-in-aid, state aid, or aid from sources such as foundations, individuals or corporations, money may be provided on a temporary basis to a school system for experimental educational programs. Whether or not the programs will continue to be financed from such sources of revenue in future years may not be known and, as a result, it may not be considered a permanent part of the foundation program or primary educational program of the school system. In such a case, account for this temporary kind of program separately from the on-going basic foundation program. In the event a temporary program proves to be one that will continue to be financed from sources that are relatively certain in the future, such programs may be transferred from special revenue funds to the school system's general fund where they may be considered part of the on-going foundation program. When this occurs, the special revenue fund may cease to be needed.

Governmental agencies, foundations, individuals, corporations and others who contribute to special educational programs generally require periodic audits of accounts of the school system to determine that the financial resources are being used for the purpose for which they were provided. For that reason separation of special revenue for special programs into special revenue funds would make it much easier for the staff of the business office to work with and for readers of financial statements of these funds to understand. Interim and annual financial statements which divide the revenues and expenditures for the continuing basic educational program from those that are temporary or experimental in nature are much easier to understand and to control.

The Governmental Accounting Standards Board identified some of the serious disadvantages of special revenue funds. It warned that if revenues raised through compulsory tax rates for special revenue funds exceed the normal use requirements, the fund may build up a fund balance, leading to unnecessary expansion of an activity in an effort to spend all of the available income. On the other hand, a low rate of revenue set by law may lead to a deficit in a special revenue fund, and the general fund may have to use its resources for purposes which are designated to be accomplished by the special revenue fund.

SOURCES OF SPECIAL REVENUE

Revenue may be provided from either local or intermediate sources or from both for special programs. The revenue could be provided from a special voted but temporary tax, from tuition charges or fees, from gifts, or from other sources. Revenue from these special sources may be segregated from the general fund in order to assist administrative officers and the board of education to determine the adequacy of revenue and the limits that must be placed upon expenditures for these special programs.

Revenue from state sources may come from direct grants by the state for special programs, such as for mentally retarded, orthopedic, speech correction, visiting teacher, driver education, and/or many others. The state may also provide revenue to a local school system which represents redistribution of federal grants-in-aid for vocational education, homemaking, trades and industry, cooperative training, and many others.

Revenue from federal sources may be provided for special programs which are of a temporary or experimental nature. The grants may be made for special programs such as vocational education in agriculture, distributive education, health occupations, home economics, trades and industrial education, manpower development training, welfare education, public health training, vocational rehabilitation, and may others. The Elementary and Secondary Education Act provides programs for the educationally disadvantaged, supplementary education, special education, and others. Among the many acts at the federal level are adult education for Indian programs, maintenance and operation in federally impacted areas, assistance to public schools affected by major disasters, and the Area Redevelopment Act.

Federal grants may be made either directly to local school systems or through state departments of education to develop educational programs. Unless they become permanent programs and a part of the foundation program of the school system, it is appropriate to account for these revenues and expenditures which are restricted through special revenue funds. As emphasis moves to and from areas of special concern, legislation at all levels will be developed to permit special kinds of educational programs. In these cases, particularly if the program is temporary, experimental, or indefinite of future financial support, the concept of special revenue funds provides timely and meaningful information for management, boards of education, governmental entities, and taxpayer purposes.

Once a special revenue fund is created, it remains in operation until the purpose for which it was created is served or until it is abolished by an act of the board of education.

BUDGETARY ACCOUNTS IN SPECIAL REVENUE FUNDS

Because revenue of a special revenue fund can arise from public sources such as taxation, formal budgets are required. When adopted by the board, the budget is recorded in the minutes of the board's meeting. Therefore, budgetary accounts for appropriations, estimated revenues, encumbrances, reserve for encumbrances, and budgeted fund balance are as effective for management accounting and financial control in special revenue funds as they are in the general fund.

The budgetary accounts compare estimated revenue with actual revenue and, as a result, they assist the school district to realize the maximum revenue during the fiscal period from each source that is available to it. They also assist the board in controlling expenditures and encumbrances by requiring administrative officers to keep them within the limits established. Budgetary accounts record estimated revenue both from public sources and from the special sources. Appropriation accounts also are established, to control all expenditures of the fund, and not merely that portion of revenue raised through the tax levy. Accounting principles and procedures applicable to special revenue funds are identical to those used in financial and managerial accounting for the general fund.

TYPICAL TRANSACTIONS OF SPECIAL REVENUE FUNDS

Transactions which occur in the operation of a special revenue fund are similar to those which occur in the operation of a general fund. Therefore, a repetition of transactions involving the budgetary accounts and the proprietary accounts will not be made at this point. Budgetary accounts for estimated revenues, appropriations, encumbrances, reserve for encumbrances, and budgeted fund balance are used in connection with proprietary accounts for assets, liabilities, fund equity, revenue, and expenditures accounts for each special revenue fund.

Transactions are recorded in a separate general journal or in a separate set of books of original entry designed specifically for use by each special revenue fund. Recording transactions of each special revenue fund in separate books of original entry assists in dividing the work of employees of the school system. Through the use of a separate set of books of original entry for each special revenue fund, it is possible to avoid confusion as to the fund to which a certain revenue or a certain expenditure is applicable.

INTERIM AND ANNUAL FINANCIAL STATEMENTS OF SPECIAL REVENUE FUNDS

Reporting the interim and annual financial position and results of operation of each special revenue fund is as important to effective administration of a school district as financial reporting is in the case of the general fund. It is the individual special revenue fund that is most important for financial control and financial management purposes. Interim and annual financial statements for each special revenue fund include: the balance sheet, the statement comparing estimated with actual revenue, the statement comparing expenditures and encumbrances with appropriations, the statement of changes in fund equity, and the statement of changes in financial position.

The format for each financial statement for a special revenue fund is identical to the format of the financial statements used by the general fund. Interim financial statements which compare estimated with actual revenues by source and which compare expenditures and encumbrances with appropriations by organizational unit and object are the most effective, efficient, and economical ways to classify financial statements. Financial responsibility can be best placed and internal accounting and financial controls can be most effective when expenditures are classified by organizational unit and by object. Expenditures can be classified in many more ways, if financial resources are available to permit it. Among additional ways that expenditures can be classified are by location, grade level, subject matter or program.

The example that follows contains all of the financial statements for a special revenue fund and illustrates a combined statement of revenues, expenditures and fund equity.

Annual Financial Statements

Illustration 1

Exhibit A

LAKE SCHOOL SYSTEM
Special Revenue Fund
Comparative Balance Sheets

Assets	July 1, 19-0	June 30, 19-1
Imprest cash fund	$ 1,000.00	$ 999.40
Cash in banks:		
First National Bank	167,187.71	45,034.58
Superior National Bank	83,130.62	88,772.16
Accounts receivable		36,410.04
Taxes receivable	47,907.79	42,283.69
Inventories	17,958.22	13,440.81
Prepaid insurance	2,293.11	1,994.57
Total assets	$319,477.45	$228,935.25
Liabilities, Reserves and Fund Equity		
Current and short-term loans	$210,000.00	$114,000.00
Accounts payable	1,556.11	2,083.38
Salaries payable	85,761.09	95,652.60
Accrued expenses payable		4,650.87
Total liabilities	$297,317.20	$216,386.85
Fund equity	22,160.25	12,548.40
Total liabilities, reserves and fund equity	$319,477.45	$228,935.25

Exhibit B

LAKE SCHOOL SYSTEM
Special Revenue Fund
Statement of Revenues, Expenditures and Fund Equity
For the Year Ended June 30, 19-1

Revenues:		
From local sources		$ 493,494.16
From state sources		776,110.19
From federal sources		102,375.31
From gifts and bequests		260.00
From other school districts in the state		68,754.33
Total revenues		$1,440,993.99
Expenditures:		
Instruction	$1,077,928.56	
Administration	49,378.13	
Attendance and health service	23,443.00	
Operation of plant	187,094.96	
Maintenance of plant	82,249.97	
Fixed charges	20,897.24	
Capital outlay	8,346.32	
Student services	1,267.66	
Total expenditures		1,450,605.84
Excess revenue over expenditures		$ (9,611.85)
Fund equity, July 1, 19-0		22,160.25
Fund equity, June 30, 19-1		$ 12,548.40

Exhibit C

LAKE SCHOOL SYSTEM
Special Revenue Fund
Statement of Changes in Financial Position
For the year ended June 30, 19-1

Resources provided:		
From revenues:		
Local sources	$ 493,494.16	
State sources	776,110.19	
Federal sources	102,375.31	
Gifts and bequests	260.00	
Other school districts in state	68,753.95	
Other funds	.38	$1,440,993.99
From reduction in assets:		
Cash:		
Imprest cash fund	$ .60	
General Fund	122,153.13	
Taxes receivable	5,624.10	
Inventories	4,517.41	
Prepaid insurance	298.54	132,593.78
From increasing liabilities:		
Accounts payable	$ 527.27	
Salaries payable	9,891.51	
Accrued expenses	4,650.87	15,069.65
Total resources provided		$1,588,657.42
Resources applied:		
To expenditures of school system:		
Instruction	$1,077,928.56	
Administration	49,378.13	
Attendance and health service	23,443.00	
Operation of plant	187,094.96	
Maintenance of plant	82,249.97	
Fixed charges	20,897.24	
Capital outlay	8,346.32	
Student services	1,171.26	
Outgoing transfer	96.40	$1,450,605.84
To increase assets:		
Increase in cash	$ 5,641.54	
Accounts receivable	36,410.04	42,051.58
To reduction in liabilities:		
Reduction in amount due on loan		96,000.00
Total resources applied		$1,588,657.42

The following example also contains all of the financial statements for a special revenue fund but it illustrates a separate statement of changes in fund equity and a separate statement of revenue and expenditures compared with budget.

Illustration 2 — **Exhibit A**

NEW SCHOOL DISTRICT
Comparative Balance Sheets
June 30, 19-0 and June 30, 19-1
Special Education Fund

Assets	June 30, 19-0	June 30, 19-1
Petty cash	$ 20.00	$ 20.00
Cash in banks	196,816.49	687,267.97
Certificates of deposit	801,701.82	1,000,000.00
Accounts receivable	8,700.17	9,503.96
Delinquent taxes receivable	89,528.79	197,868.34
Accrued interest receivable	6,125.58	7,397.25
Due from other funds	423.59	375.35
Prepaid insurance	597.64	901.50
Prepaid expenses	-0-	381.02
Total assets	$1,103,914.08	$1,903,715.39
Liabilities		
Accounts payable	$ 12,627.17	$ 12,113.39
Salaries payable	43,838.46	54,608.78
Due to other funds	8,214.38	1,354.00
Deferred revenue	-0-	1,101.58
Total liabilities	$ 64,680.01	$ 69,177.75
Special Education Fund Equity	1,039,234.07	1,834,537.64
Total liabilities and special education fund equity	$1,103,914.08	$1,903,715.39

Exhibit B

NEW SCHOOL DISTRICT
Statement of Changes in Fund Equity
July 1, 19-0 to June 30, 19-1
Special Education Fund

Fund Equity, July 1, 19-0		$1,039,234.07
Add		
Excess of revenues over expenditures	$796,566.02	
Adjustment of accounts receivable	514.60	
Adjustment of property taxes receivable	2,719.30	799,799.92
		$1,839.033.99
Deduct		
Adjustment of accounts payable	$ 2,558.14	
Refund of 10-8 property taxes per court settlement	1,938.21	4,496.35
Fund equity, June 30, 19-1		$1,834,537.64

Exhibit C
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NEW SCHOOL DISTRICT
Statement of Revenue and Expenditures Compared to Budget
July 1, 19-0 to June 30, 19-1
Special Education Fund

	19-0 19-1 Actual	19-0 19-1 Budget	Actual Over (Under) Budget
Revenues			
Revenue from local sources:			
Current property tax levy	$2,115,153.44	$2,114,167.00	$ 986.44
Interest and penalties on delinquent taxes	2,439.80	1,500.00	939.80
Revenue from current deposits and investments	46,890.78	18,000.00	28,890.78
Gifts, Black Odyssey Project	798.80	-0-	798.80
Total revenue from local sources	$2,165,282.82	$2,133,667.00	$ 31,615.82
Revenue from state sources:			
State school aid (intermediate)	$ 249,703.26	$ 297,600.00	$ (47,896.74)
County trainable	343,986.63	372,762.00	(28,775.37)
Project expenses and fees	1,924.52	1,100.00	824.52
Institute expenses and fees	23,928.32	62,713.00	(38,784.68)
Vocational rehabilitation	670.00	-0-	670.00
Total revenue from state sources	$ 620,212.73	$ 734,175.00	$ (113,962.27)
Incoming transfers from other school districts in the state:			
Rental of school facilities	$ 8,741.00	$ 6,641.00	$ 2,100.00
Incoming transfers from other funds:			
Transfer from general education fund – Black Odyssey Project	150.00	-0-	150.00
Total revenues and incoming transfers	$2,794,386.55	$2,874,483.00	$ (80,096.45)
Expenditures			
Instruction – direct – general curriculum:			
Salaries, teachers	$ 28,311.00	$ 23,620.00	$ 4,691.00
Salaries, secretaries and clerical	1,633.85	1,620.00	13.85
Teaching supplies	129.86	100.00	29.86
Travel expense and mileage allowance	1,956.99	2,500.00	(543.01)
Conference and workshops expense	126.72	400.00	(273.28)
Dues and subscriptions	15.00	45.00	(30.00)
Total instruction – direct – general curriculum	$ 32,173.42	$ 28,285.00	$ 3,888.42

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Exhibit C
Page 2 of 4 pages

NEW SCHOOL DISTRICT
Statement of Revenue and Expenditures Compared to Budget
July 1, 19-0 to June 30, 19-1
Special Education Fund

Expenditures (Cont'd)	19-0 19-1 Actual	19-0 19-1 Budget	Actual Over (Under) Budget
Instruction – direct – other and non-academic:			
Salaries, director	$ 2,825.00	$ 2,825.00	$
Salaries, teachers	3,425.00	3,425.00	
Salaries, secretarial and clerical	948.50	948.50	
Salaries, other	816.00	816.00	
Contracted services	140.00	140.00	
Teaching supplies	2,326.35	43,081.12	(40,754.77)
Audio-visual materials	81.05	81.05	
Instructional materials	1,925.00	1,925.00	
Office supplies	1,394.72	1,394.72	
Travel expense and mileage allowance	589.17	589.17	
Conference and workshop expense	8,587.44	8,587.44	
Total instruction – direct – other and non-academic	$ 23,058.23	$ 63,813.00	$ (40,754.77)
Instruction – pupil support services:			
Salaries, director	$ 1,366.00	$ 1,500.00	$ (134.00)
Salaries, teachers	355,003.52	352,030.00	2,973.52
Salaries, psychological personnel	400.00	1,500.00	(1,100.00)
Salaries, therapist	4,200.00	1,500.00	2,700.00
Salaries, counselor	1,867.00	1,500.00	367.00
Salaries, secretarial and clerical	14,393.13	17,060.00	(2,666.87)
Teaching supplies	1,931.41	3,150.00	(1,218.59)
Travel expense and mileage allowance	13,585.88	17,000.00	(3,414.12)
Conference and workshop expense	5,661.02	5,400.00	261.02
Dues and subscriptions	352.00	480.00	(128.00)
Total instruction Pupil support services	$ 398,759.96	$ 401,120.00	$ (2,360.04)
Instruction – instructional services centers:			
Salaries, secretarial and clerical	$ 6,984.74	$ 8,500.00	$ (1,515.26)
Teaching supplies	495.84	2,000.00	(1,504.16)
Travel expense and mileage allowance	10.25	50.00	(39.75)
Conference and workshop expense	-0-	50.00	(50.00)
Dues and subscriptions	2.00	25.00	(23.00)
Total instruction – instructional service centers	$ 7,492.83	$ 10,625.00	$ (3,132.17)

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Exhibit C
Page 3 of 4 pages

NEW SCHOOL DISTRICT
Statement of Revenues and Expenditures Compared to Budget
July 1, 19-0 to June 30, 19-1
Special Education Fund

Expenditures (Cont'd)	19-0 19-1 Actual	19-0 19-1 Budget	Actual Over (Under) Budget
Instruction – teachers instructional support:			
Salaries, teachers	$ 88,455.44	$ 116.390.00	$ (27,934.56)
Salaries, secretarial and clerical	4,208.11	4,590.00	(381.89)
Teaching supplies	1,903.72	2,750.00	(846.28)
Travel expense and mileage allowance	5,376.99	8,040.00	(2,663.01)
Conference and workshop expense	860.79	1,800.00	(939.21)
Dues and subscriptions	10.00	150.00	(140.00)
Total instruction – teachers instructional support	$ 100,815.05	$ 133,720.00	$ (32,904.95)
Administration:			
Salaries, superintendents and assistants	$ 20,250.00	$ 20,500.00	$ (250.00)
Salaries, business administration	12,047.13	12,200.00	(152.87)
Salaries, secretarial and clerical	8,310.23	8,900.00	(589.77)
Other salaries for administration	4,064.10	5,000.00	(935.90)
Contracted services	10,257.84	14,500.00	(4,242.16)
Office supplies	5,635.83	6,250.00	(614.17)
Travel expense and mileage allowance	1,173.78	1,900.00	(726.22)
Conference and workshop expense	1,497.98	1,000.00	497.98
Dues and subscriptions	23.00	30.00	(7.00)
Printing and publishing reports	61.74	-0-	61.74
Total administration	$ 63,321.63	$ 70,280.00	$ (6,958.37)
Operation of physical plant:			
Salaries, custodial services	$ 5,467.13	$ 6,000.00	$ (532.87)
Utilities	15,244.82	13,000.00	2,244.82
Custodial supplies	1,009.54	600.00	409.54
Total operation of physical plant	$ 21,721.49	$ 19,600.00	$ 2,121.49
Maintenance of physical plant:			
Contracted plant maintenance	$ 2,643.58	$ -0-	$ 2,643.58
Maintenance supplies	92.46	-0-	92.46
Total maintenance of physical plant	$ 2,736.04	$ -0-	$ 2,736.04

Exhibit C
Page 4 of 4 pages

NEW SCHOOL DISTRICT
Statement of Revenues and Expenditures Compared to Budget
July 1, 19-0 to June 30, 19-1
Special Education Fund

Expenditures (Cont'd)	19-0 19-1 Actual	19-0 19-1 Budget	Actual Over (Under) Budget
Fixed charges:			
Insurance and judgments	$ 17,349.71	$ 26,225.00	$ (8,875.29)
Rental of land and buildings	1,299.48	1,540.00	(240.52)
Other fixed charges	734.00	1,000.00	(266.00)
Total fixed charges	$ 19,383.19	$ 28,765.00	$ (9,381.81)
Capital outlay:			
Furniture and equipment:			
Other furniture and equipment	$ 5,541.16	$ 23,300.00	$ (17,758.84)
Outgoing transfers to other school districts in the state:			
Operating reimbursement	$ 588,978.88	$ 653.191.00	$ (64,212.12)
Transportation reimbursement	166,375.36	153,957.00	12,418.36
Facility rent	22,644.44	71,200.00	(48,555.56)
Trainable operations	482,620.97	552,240.00	(69,619.03)
Trainable facilities	45,095.12	47,000.00	(1,904.88)
Summer program	8,569.50	10,746.00	(2,176.50)
Educational materials	194.50	-0-	194.50
Equipment	3,108.76	50,000.00	(46,891.24)
Facilities	-0-	550,000.00	(550,000.00)
Total outgoing transfers to other school districts in the state	$1,317,587.53	$2,088,334.00	$ (770,746.47)
Outgoing transfers to other funds:			
Transfer to data processing fund – Data processing services	$ 5,230.00	$ -0-	$ (5,230.00)
Total expenditures and outgoing transfers	$1,997,820.53	$2,867,842.00	$ (870,021.47)
Excess of revenues over expenditures	$ 796,566.02	$ 6,641.00	$ 789,925.02

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Exhibit D

NEW SCHOOL DISTRICT
Statement of Changes in Financial Position
June 30, 19-0 to June 30, 19-1
Special Revenue Fund

Resources provided:		
By revenue:		
Total revenue, see exhibit C, page 1		$2,794,386.55
By decreasing assets:		
Due from other funds		48.24
By increasing liabilities:		
Salaries payable		10,770.32
By increasing deferred revenue:		
Deferred revenue		1, 101.58
By prior year adjustments:		
Accounts receivable	$ 514.60	
Property taxes receivable	2,719.30	3,233.90
Total resources provided		$2,809,540.59
Resources applied:		
To operation:		
Total operating expenditures, see exhibit C, page 4		$1,997,820.53
To increasing assets:		
Cash	$490,457.48	
Certificates of deposit	198,298.18	
Accounts receivable	803.79	
Delinquent taxes receivable	108,339.55	
Accrued interest receivable	1,271.67	
Prepaid insurance	303.86	
Prepaid expenses	381.02	799,849.55
To decrease liabilities:		
Accounts payable	$ 513.78	
Due to other funds	6,860.38	7,374.16
To prior year adjustments:		
(See exhibit B)		
Accounts payable	$ 2,558.14	
19-8 property tax court settlement	1,938.21	4,496.35
Total resources applied		$2,809,540.59

The following financial statements for the special revenue fund is taken from the annual financial report for the fiscal year ending August 31, 1981, Spring Independent School District, Houston, Texas.

SPECIAL REVENUE FUND

The Special Revenue Fund is used to account for all Federal and State funded grants. These grants are awarded to the District with the purpose of accomplishing specific educational tasks. Grants accounted for in the Special Revenue Fund include:

- Elementary and Secondary Education Act, Title I
- Elementary and Secondary Education Act, Title IV-B
- Elementary and Secondary Education Act, Title I Handicapped
- Alternative Program—Criminal Justice

SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-1

SPECIAL REVENUE FUND
COMPARATIVE BALANCE SHEET
August 31, 1981 and 1980

	1981	1980
Assets		
Cash	$ 2,513	$(11,825)
Due from State of Texas	6,241	17,168
Interfund receivables		360
Total assets	$ 8,754	$ 5,703
Liabilities		
Accounts payable	$ 2,910	$ 164
Interfund payables	258	
Deferred revenue	5,586	
Total liabilities	8,754	164
Fund balance		5,539
Total liabilities and fund balance	$ 8,754	$ 5,703

See accompanying notes to financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT EXHIBIT C-2

SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE—BUDGET (GAAP BASIS) AND ACTUAL

For the Year Ended August 31, 1981
with Comparative Actual Amounts for the Year Ended August 31, 1980

	1981			1980
	Budget	Actual Revenue	Variance-Favorable (Unfavorable)	Actual Revenue
Revenues:				
State sources:				
ESEA Title I—Regular	$ 58,932	$ 55,433	$ (3,499)	$ 49,361
ESEA Title IV-B	11,117	10,902	(215)	31,530
ESEA Title I—Handicapped	2,455	2,455		2,050
Total state sources	72,504	68,750	(3,714)	82,941
Federal sources:				
Alternative program—criminal justice	34,678	27,844	(6,834)	
Total Federal sources	34,678	27,844	(6,834)	
Total revenues	107,182	96,634	(10,548)	82,941
Expenditures:				
Instruction	100,115	94,422	5,693	51,676
Instructional administration	46,484	2,877	43,607	25,236
Total expenditures	146,599	97,299	49,300	76,912
Excess (deficit) of revenues over expenditures	(39,417)	(665)	38,752	6,029
Fund balance, September 1	5,539	5,539		(490)
Reclassification to deferred revenue	(4,874)	(4,874)		
Fund balance, August 31	$ (38,752)	$	$ 38,752	$ 5,539

See accompanying notes to financial statements.

SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-3

SPECIAL REVENUE FUND
STATEMENT OF EXPENDITURES—BUDGET (GAAP BASIS) AND ACTUAL

For the Year Ended August 31, 1981
With Comparative Actual Amounts for the Year Ended August 31, 1980

	1981			1980
	Budget	Actual Revenue	Variance-Favorable (Unfavorable)	Actual Revenue
Function				
11 Instruction				
6100 Payroll costs	$ 64,996	$ 61,677	$ 3,319	$ 45,014
6200 Purchased and contracted services	13,300	10,679	2,621	
6300 Supplies and materials	11,317	7,398	3,919	2,222
6400 Other operating expenses	1,655	973	682	3,854
6600 Capital outlay	8,847	13,695	(4,848)	586
Total instruction	100,115	94,422	5,693	51,676
22 Instructional resources and media services				
6600 Capital outlay	46,484	2,877	43,607	25,236
Total instructional resources and media services	46,484	2,877	43,607	25,236
Total expenditures	$ 146,599	$ 97,299	$ 49,300	$ 76,912

See accompanying notes to financial statements.

COMBINING FINANCIAL STATEMENTS, ALL SPECIAL REVENUE FUNDS

A different kind of problem in financial reporting occurs when "combining" financial statements for all special revenue funds are prepared to present a comprehensive annual financial report for all funds and account groups used in financial administration of the school system. It is the individual special revenue fund that requires a separate set of books of original entry, a general ledger, subsidiary ledgers, adequate competent business papers which provide evidence of financial transactions, and interim and annual financial statements for effective financial administration and control. The combining technique used by Carrollton Farmers Branch Independent School District, Carrollton, Texas, presents each financial statement for each special revenue fund in columns on financial statements referred to as "combining...." in the following illustration taken from its comprehensive annual financial report, fiscal year ended August 31, 1981. The technique effectively combines financial statements for all of the special revenue funds into one set composed of a combining balance sheet, a combining statement of revenue, expenditures and fund equity, and a statement of changes in fund balances.

Reference is made to Chapter 9 and the section entitled "Accompanying Financial Statements" where GASB's Statement 1 identifies the kinds of financial statements that are necessary for preparation of the Comprehensive Annual Financial Report. Some of the illustrations that follow are CAFRs of school systems that have earned the Certificate of Excellence in Financial Reporting from ASBO.

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SCHEDULE C-1

Carrollton-Farmers Branch Independent School District
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AUGUST 31, 1981 WITH COMPARATIVE TOTALS FOR AUGUST 31, 1980

	Elementary and Secondary Education Acts											Indo-chinese Refugee Children Assistance Act	Totals August 31	
Assets	Title I	Title IV B and C	Title VI	Special Education	Vocational Education	Educationally Disadvantaged	Driver Education	Student Teaching	Crime And Drug	Bilingual	Gifted And Talented		1981	1980
Cash	$ 184	$4,252	$41,391	$ 8,694	$ —	$1,471	$ —	$1,381	$731	$355	$4,315	$ —	$ 62,774	$16,571
Receivables:														
Due From State of Texas	—	—	—	—	43,900	—	—	—	—	—	—	—	43,900	6,042
Interfund Loans Receivable— Student Activity Fund	—	—	—	—	—	—	—	—	—	—	—	—	—	159
Inventories	—	—	—	—	43,645	—	—	—	—	—	—	—	43,645	—
Prepaid Expenses	—	—	—	7,493	9,062	—	1,211	369	—	453	—	—	18,588	8,465
Total Assets	$ 184	$4,252	$41,391	$16,187	$96,607	$1,471	$1,211	$1,750	$731	$808	$4,315	$ —	$168,907	$31,237
Liabilities and Fund Balance														
Liabilities:														
Accounts Payable	—	1,156	2,635	10,412	13,487	—	1,178	35	—	447	93	—	29,443	35,639
Fund Overdraft	1,042	—	—	—	68,064	—	33	—	—	—	—	2,904	72,043	37,255
Accrued Liabilities	—	—	—	3,786	10,690	—	—	—	—	—	—	—	14,476	866
Interfund Loans Payable— General Fund	—	—	—	—	—	—	—	—	—	—	—	—	—	5,000
Deferred Income	—	—	36,587	—	—	—	—	—	—	—	—	—	36,587	—
Total Liabilities	$1,042	$1,156	$39,222	$14,198	$92,241	$ —	$1,211	$ 35	$ —	$447	$ 93	$2,904	$152,549	$78,760
Fund Balance (Deficit):														
Reserved:														
ESEA, Title I	(858)	—	—	—	—	—	—	—	—	—	—	—	(858)	(4,628)
ESEA, Title IV, B and C	—	3,096	—	—	—	—	—	—	—	—	—	—	3,096	1,421
ESEA, Title VI	—	—	2,169	—	—	—	—	—	—	—	—	—	2,169	—
Reserved for Encumbrances	—	—	—	74	2,637	—	123	—	—	—	—	—	2,834	30,566
Unreserved:														
Designated for Specific Programs	—	—	—	1,915	1,729	1,471	—	1,715	731	361	4,222	—	12,144	2,657
Undesignated	—	—	—	—	—	—	(123)	—	—	—	—	(2,904)	(3,027)	(77,539)
Total Fund Balance (Deficit)	(858)	3,096	2,169	1,989	4,366	1,471	—	1,715	731	361	4,222	(2,904)	16,358	(47,523)
Total Liabilities and Fund Balance	$ 184	$4,252	$41,391	$16,187	$96,607	$1,471	$1,211	$1,750	$731	$808	$4,315	$ —	$168,907	$31,237

Carrollton-Farmers Branch Independent School District

SPECIAL REVENUE FUND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED AUGUST 31, 1981 WITH
COMPARATIVE TOTALS FOR YEAR ENDED AUGUST 31, 1980

	Elementary and Secondary Education Acts				
	Title I	Title IV B and C	Title VI	Special Education	Vocational Education
Revenues:					
From Local Sources:					
Tuition From Patrons	$ —	$ —	$ —	$ —	$ —
From State Sources:					
Per Capita And Foundation	—	—	—	1,282,201	798,509
Transportation	—	—	—	88,530	—
Other Foundation Revenue	—	—	—	—	—
Vocational	—	—	—	—	114,557
E.S.E.A. Revenue	111,105	44,776	—	—	—
Other State Distributed Revenue	—	—	123,298		
Other State Revenue	—	—	—	4,475	—
Total revenues	111,105	44,776	123,298	1,375,206	913,066
Expenditures:					
Instruction:					
Payroll Costs	105,765	—	41,943	1,263,417	861,524
Purchased And Contracted Services	—	—	—	13,402	1,966
Supplies and Materials	1,570	7,691	2,765	19,511	92,998
Other Operating Expenses	—	—	—	3,804	24,817
Capital Outlay	—	35,268	12,758	9,329	101,667
	107,335	42,959	57,466	1,309,463	1,082,972
Instructional Administration:					
Payroll Costs	—	—	337	103,140	62,954
Purchased And Contracted Services	—	—	1,420	385	—
Supplies And Materials	—	—	17	597	628
Other Operating Expenses	—	—	1,895	6,662	4,999
Capital Outlay	—	—	—	233	—
	—	—	3,669	111,017	68,581
Instructional Resources and Media Services:					
Capital Outlay	—	13	—	—	—
	—	13	—	—	—
School Administration:					
Supplies and Materials	—	—	—	—	—
	—	—	—	—	—

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Educationally Disadvantaged	Driver Education	Student Teaching	Crime And Drug	Bilingual	Gifted And Talented	Indochinese Refugee Children Assistance Act	Totals (Memorandum Only) Year ended August 31 1981	Totals (Memorandum Only) Year ended August 31 1980
$ —	$ 67,848	$ —	$ —	$ —	$ —	$ —	$ 67,848	$ 42,140
46,452	—	—	—	—	—	—	2,127,162	1,902,206
—	—	—	—	—	—	—	88,530	66,176
—	14,175	8,950	—	3,076	32,275	—	58,476	27,900
—	—	—	—	—	—	—	114,557	33,124
—	—	—	—	—	—	—	155,881	179,808
—	—	—	—	—	—	9,597	132,895	80,042
—	—	—	—	—	—	—	4,475	—
46,452	82,023	8,950	—	3,076	32,275	9,597	2,749,824	2,331,396
44,904	98,448	7,154	—	172,696	25,550	11,756	2,633,157	2,148,389
—	21,983	—	—	—	220	—	37,571	28,910
—	3,704	52	1,335	722	1,786	275	132,409	145,690
—	(3,362)	—	—	—	497	470	26,226	36,874
663	—	—	—	—	—	—	159,685	111,171
45,567	120,773	7,206	1,335	173,418	28,053	12,501	2,989,048	2,471,034
—	—	—	—	—	—	—	166,431	151,805
—	—	—	—	—	—	—	1,805	2,491
—	—	—	—	—	—	—	1,242	1,703
—	—	—	—	—	—	—	13,556	7,255
—	—	—	—	—	—	—	233	191
—	—	—	—	—	—	—	183,267	163,445
—	—	—	—	2,638	—	—	2,651	2,067
—	—	—	—	2,638	—	—	2,651	2,067
—	—	—	5	—	—	—	5	—
—	—	—	5	—	—	—	5	—

(Continued)

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SPECIAL REVENUE FUND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES, CONTINUED

	Elementary and Secondary Education Acts				
	Title I	Title IV B and C	Title VI	Special Education	Vocational Education
Curriculum And Personnel Development:					
Purchased And Contracted Services	$ —	$ —	$ 1,102	$ —	$ —
Other Operating Expenses	—	—	—	—	—
	—	—	1,102	—	—
Communication And Dissemination:					
Supplies And Materials	—	—	—	—	—
Guidance and Counseling Services:					
Payroll Costs	—	—	42,160	201,684	73,564
Purchased and Contracted Service	—	—	—	19,098	—
Supplies and Materials	—	—	55	8,307	2,199
Other Operating Expenses	—	—	760	1,788	1,243
Capital Outlay	—	—	—	4,210	—
	—	—	42,975	235,087	77,006
Pupil Transportation—Exceptional Children:					
Payroll Costs	—	—	17,995	86,520	—
Purchased And Contracted Services	—	—	—	468	—
Supplies and Materials	—	—	—	22,425	—
Other Operating Expenses	—	—	—	1,321	—
Capital Outlay	—	—	—	22,916	—
	—	—	17,995	133,650	—
Plant Maintenance And Operations:					
Supplies And Materials	—	—	—	—	—
Total Expenditures	107,335	42,972	123,207	1,789,217	1,228,559
Excess Of Revenues Over (Under) Expenditures	3,770	1,804	91	(414,011)	(315,493)
Other Financing Sources:					
Operating Transfer From General Fund	—	—	—	459,536	325,240
Excess Of Revenues And Other Financing Sources Over (Under) Expenditures	3,770	1,804	91	45,525	9,747
Fund Balance, September 1, 1980	(4,628)	1,292	—	(41,458)	(5,381)
Reclassification Of Fund Balance	—	—	2,078	(2,078)	—
Fund Balance (Deficit), August 31, 1981	$ (858)	$ 3,096	$ 2,169	$ 1,989	$ 4,366

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Educationally Disadvantaged	Driver Education	Student Teaching	Crime And Drug	Bilingual	Gifted And Talented	Indochinese Refugee Children Assistance Act	Totals (Memorandum Only) Year ended August 31 1981	Totals (Memorandum Only) Year ended August 31 1980
$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,102	$ 2,039
—	—	—	—	—	—	—	—	176
—	—	—	—	—	—	—	1,102	2,215
—	—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	317,408	256,775
—	—	—	—	—	—	—	19,096	15,849
—	—	—	—	—	—	—	10,561	10,231
—	—	—	—	—	—	—	3,791	3,441
—	—	—	—	—	—	—	4,210	1,165
—	—	—	—	—	—	—	355,066	287,461
—	—	—	—	—	—	—	104,515	59,055
—	—	—	—	—	—	—	468	—
—	—	—	—	—	—	—	22,425	13,097
—	—	—	—	—	—	—	1,321	1,272
—	—	—	—	—	—	—	22,916	51,239
—	—	—	—	—	—	—	151,645	124,663
—	—	—	—	—	—	—	—	—
45,567	120,773	7,206	1,340	176,086	28,053	12,501	3,682,786	3,050,865
885	(38,750)	1,744	(1,340)	(172,980)	4,222	(2,904)	(932,962)	(719,489)
—	38,750	—	—	173,317	—	—	996,843	639,690
885	—	1,744	(1,340)	337	4,222	(2,904)	63,881	(79,799)
586	—	(29)	2,071	24	—	—	(47,523)	32,276
—	—	—	—	—	—	—	—	—
$ 1,471	$ —	$ 1,715	$ 731	$ 361	$4,222	$(2,904)	$ 16,358	$ (47,523)

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In its 1980 publication entitled "Certificate of Excellence in Financial Reporting by School Systems", ASBO includes the combining balance sheet-all special revenue funds, and the combining statement of revenues, expenditures and changes in fund balances-budget and actual.

The problem of combining financial statements of other funds which are similar in nature will occur in capital projects funds, debt service funds, enterprise funds, internal services funds, trust funds and agency funds.

COMBINED FINANCIAL STATEMENTS

The combined balance sheet, all fund types and account groups, in Carrollton Farmers Branch Independent School District's comprehensive annual financial report has one column designated for special revenue funds. It includes all figures in the August 31, 1981, column from the combining balance sheet.

The combined statement of revenues, expenditures and changes in fund balances in that comprehensive annual financial report has one column designated for special revenue funds. It includes all figures in the column on the combining statement of revenues, expenditures and changes in fund balances entitled "Totals (Memorandum Only) Year ended August 31, 1981. Users of financial statements for individual special revenue funds focus attention to the fact that combined statements without supporting financial statements for each special revenue fund can be misleading and create problems in the mind of the board and the general public about the status and management of the special revenue funds. Chapter 20 will illustrate combined financial statements for the comprehensive annual financial report.

Chapter 11
Special Revenue Funds

QUESTIONS

11-1. Under what circumstances should a special revenue fund be created?

11-2. When should a special revenue fund be used?

11-3. What are ways by which special revenue funds may be authorized for use by a school system?

11-4. What advantages are there to using special revenue funds?

11-5. How long does a special revenue fund remain in operation?

11-6. Are budgetary accounts used in the operation of special revenue funds?

11-7. What is an agency or trust fund?

11-8. Where are transactions of a special revenue fund recorded?

11-9. What financial statements are prepared for each special revenue fund?

11-10. Are appropriation accounts used in special revenue funds? If so, why?

CASES AND PROBLEMS

11-1. The Guidance School System, as a result of a special tax levy and commitments under the provisions of special legislation by both the federal government and the state government, created a special revenue fund in order to conduct an experiment in vocational education. The following transactions occurred:

A. The annual budget adopted for 19-- was as follows:

Estimated revenue—income taxes	$ 800,000
Estimated revenue—tuition	200,000
Estimated revenue—federal sources	1,000,000
Appropriations:	
Salaries	$1,000,000
Employee benefits	150,000
Supplies and materials	780,000

B. Prior year's encumbrances were closed into the special revenue fund's equity, leaving a reserve for encumbrances in the amount of $7,800. Commitments had been issued for supplies and materials.

C. The Guidance School System used an agency fund for collection of all taxes and an agency fund for central payroll.

D. Teacher contracts in the amount of $1,000,000 were signed with a corresponding estimate of employee benefits amounting to $150,000.

E. Formal notice was received that the vocational education project has been approved by the federal government in the amount of $1,000,000.

F. Registration for the special vocational education project realized $195,000 from tuition charges in cash.

G. Income tax distribution for the first quarter, 19--, to the school system produced $200,000 cash.

H. Payroll vouchers received from the central payroll fund billed the special revenue fund for $100,000 salaries and $15,000 employee benefits. A check in the amount of $115,000 was issued to the central payroll fund.

I. The tax collection agency fund remitted $200,000 to the special revenue fund, representing collections in G, above.

J. Issued purchase orders for materials and supplies in the amount of $775,000.

K. Received purchase invoices and receiving reports in the amount of $325,000 for materials and supplies orders in the amount of $400,000. Checks were issued in the amount of $130,000 in partial payment of the invoices.

INSTRUCTIONS:

Record the transactions on the books of Guidance School System in general journal form.

11-2. On July 1, 19-- the Guidance School System's special revenue fund had accounts with the following balances:

2101	Cash	$19,000
2180	Investments	10,000
2402	Accounts payable	800
2704	Special revenue fund balance	28,200

During the year the following occurred: A. The budget was adopted by the board of education as follows:

A. The budget was adopted by the board of education as follows:

21100	Revenue from local sources – taxes	$114,500
21910	Revenue from local sources – rentals	3,650
23000	Revenue from state sources – grants in aid	72,000
24000	Revenue from federal sources – grants in aid	56,480
21200	Special programs	81,000
21300	Adult/continuing education program	24,000
22100	Support services – pupils	12,000
22120	– guidance	12,000
22200	– instructional staff	1,150
22220	– instructional media	27,000
22320	General support – general administration	18,000
22350	– facilities acquisition	24,000
22370	– food services	7,000
22384	– printing and duplicating	12,000
22390	– information services	2,000
22410	– operation of plant	12,500

B. The board of education authorized sale of investments for $10,000. The investments were sold for $10,000.

C. Teachers' contracts were signed as follows: Special programs 79,000 Adult/continuing education 23,150

D. Notice was received that taxes had been assessed and levied for the school system and that the central tax collection agency fund's distribution of revenue to various funds of the school system resulted in a claim in the amount of $113,860 from the agency fund by the special revenue fund.

E. The special revenue fund received a bill from the central physical plant fund for $6,000, its share of plant operation costs for the year.

F. The state's grant in aid was received in the amount of $73,800.

G. A teacher resigned effective August 31 prior to beginning of the school year. Special program contracts had been signed in the amount of $9,200 with the teacher.

H. Cash of $60,400 was collected from rentals in the amount of $3,400 and from federal grants in aid of $57,000.

I. During the year invoices, receiving reports, and adequate supporting documents were received resulting in issuing vouchers payable as follows:

	EXPENDITURE	ENCUMBERED
Special programs	$ 68,200	$65,000
Adult/continuing education programs	20,000	20,150
Support programs:		
Pupils	11,800	
Guidance	12,000	
Instructional staff	1,000	
Instructional media	26,000	
General support:		
General administration	18,000	
Facilities acquisition	23,500	
Food services	5,000	
Printing and duplicating	11,000	
Information services	2,000	
Operation of plant	6,000	
	$204,500	$85,150

J. Collected $112,000 from the central tax collection agency fund.
K. Paid a total of $210,000 on accounts payable.

INSTRUCTIONS:

1. Record account balances as of July 1, 19-- in general ledger accounts.
2. Record transactions during the year in general journal form, using both general ledger and subsidiary ledger accounts.
3. Post to the general ledger and subsidiary ledger.
4. Prepare a trial balance as of June 30, 19--.
5. Prepare a balance sheet prior to recording closing entries.
6. Prepare supporting schedules of the revenue and expenditures ledgers for the balance sheet prepared in 5, above.
7. Record closing entries in general journal form for both the general and subsidiary ledger accounts.
8. Post closing entries to the general and subsidiary ledger accounts. Rule general and subsidiary ledger accounts.
9. Prepare a post-closing trial balance.

12

CAPITAL PROJECTS FUNDS

As the population shifts and grows, school systems are faced with the problem of securing the money necessary to acquire building sites, to construct buildings, and to equip new facilities. Buildings and equipment have to be repaired, remodeled and/or replaced as time and use take their toll. Changes in economic conditions, additions and changes in educational programs may require construction of new buildings, a remodeling program, or an improvement program. Expenditures for these purposes are classified as capital outlay expenditures or capital projects fund expenditures.

If revenue of the general fund is adequate each year to meet the constantly changing needs for fixed assets, accounting for their acquisition could be handled through the capital outlay expenditure accounts in the general fund or in special revenue funds. This frequently is not possible and other methods of financing have to be used. Capital projects funds, therefore, are created to account for acquisition, construction or for major remodeling of fixed assets when not provided for in the general fund, special revenue funds, internal services funds or enterprise funds.

One of the most common ways revenue is provided in capital projects funds for these purposes is by issuing bonds. Bonds may also be issued for other capital project fund purposes such as to eliminate a deficit resulting from operation of the general fund, a special revenue fund, an internal services fund, or an enterprise fund, or to refinance, retire or refund maturing bond issues.

Grants received from gifts or from other units of government at the local, state, province, or federal level also provide major sources of revenue designated for capital projects of school systems.

NATURE OF CAPITAL PROJECTS FUNDS

The capital projects funds concept has been developed to account for revenue from a bond issue and for revenue from other sources, all of which is designated for capital outlay purposes, i.e., for land, buildings and equipment. Bonding power of the board or the governmental unit through which bonds are issued is restricted by law and a vote of taxpayers is usually required before bonds can be issued. The purposes for which proceeds of a bond issue are to be used is information voters should have before they vote for or against a bond issue. As a result, the board is under an obligation to use the proceeds of a bond issue only for those purposes specified.

Cases are on record where money raised through bond issues intended to acquire fixed assets was used, instead, to pay current operating expenses. Whether intentional or unintentional on the part of the administrative officers who permitted such expenditures, or whether done with or without the knowledge of the governing board, the fact remains that the money was used for a purpose other than that for which it was raised. Business operations of a school system which permit such a thing to happen destroy confidence of the voters and taxpayers in the board and its administrative officers. This can be avoided by full disclosure of financial facts and by use of financial accounting principles and reporting procedures applicable to capital projects funds, segregating them from the general fund.

The Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, the National Center for Education Statistics, and the Association of School Business Officials of the U. S. and Canada recommend that a separate group of self-balancing accounts be maintained for each capital project. Differences in each bond issue's proceeds, interest rate, interest payment dates, maturity dates, and in the purposes for which revenue may be used make it desirable to use separate and independent funds for each major capital project.

DEFINITION OF A BOND PAYABLE

A bond, frequently referred to as a debenture, is a written promise to pay a sum certain in money at a fixed or determinable future date. It is issued by a school district or the governmental unit under which the school district operates as evidence of debt. It, generally, is under seal and states a specific rate of interest payable on specified dates. The difference between a note and a bond is that a note, generally, is issued for a short period of time and a bond, usually, is issued for a much longer period of time. Required legal formality is greater in the case of bonds than in the case of notes. When all legal procedures have been followed, the board or the governmental unit under which the board operates is authorized to issue bonds to investors. Investors find bonds of public school districts to be attractive because income earned is exempt from federal income tax.

Bonds may be coupon bonds, registered bonds, or a combination of both. A coupon bond is one to which coupons are attached, each indicating the amount of interest and the date on which interest is payable. On or within a reasonable time subsequent to the interest payment date, the coupons are presented to the school system, its fiscal agent, or to the governmental unit issuing the bonds or its fiscal agent and the interest is paid.

A bond may be registered as to principal or interest or both. If bonds are registered as to principal and interest, no coupons are attached. Instead, the name of the owner is registered on the books of the school system or its fiscal agent. On interest payment dates, interest checks are issued to the owners of record, and when the bonds' maturity date arrives, checks for the maturity value of the bonds are issued to owners of record in exchange for the matured bonds. If, however, bonds are registered as to principal only, interest coupons are attached which are presented for payment on interest payment dates. When the registered bonds mature, checks for the maturity value are issued to owners of record in exchange for the matured bonds. Recent federal legislation has effectively required all "municipal" bonds to be registered. Starting July 1, 1983, the municipal securities market moved from the "bearer-form, coupon bond" into the mandatory "registered-form" bond. Ownership of every long-term, tax-exempt security issued now must be a matter of record.

The problems related to recording the liability as a result of issuing general long-term debt instruments are handled through the general long-term debt account group while problems related to payment of interest and principal are handled through the debt service fund, and/or the general fund.

WAYS BY WHICH BONDS ARE ISSUED

The power to issue bonds may be vested in the school board or in the governmental unit under which the school system operates. If the latter, the proceeds of the issue may be transferred to the board of education for proper administration. On the other hand, if the board has the power and authority to issue its own bonds, all procedures necessary for securing proper authorization under laws and all procedures related to selling the bonds are responsibilities of the board of education. Under either procedure, the board of education is charged with the responsibility of accounting for the expenditure of proceeds in accordance with the purposes for which the capital projects fund was created.

RECORDING AUTHORITY TO ISSUE BONDS

When a bond issue is authorized to be sold, an account entitled bonds authorized and unissued is debited, appropriations is credited. Both are budgetary accounts. The differences between debits and credits is credited to the budgeted fund balance account or to the capital projects unappropriated fund equity account. The bonds authorized and unissued account serves the same purpose for a capital projects fund as the estimated revenue account serves for the general fund. It is debited for the face value of the bonds. Although this is not an asset of the fund, it is a financial resource through which money is obtained. For that reason, the bonds authorized and unissued account is reported on the assets and resources side of interim and annual balance sheets.

Proceeds from a bond issue provide revenue to the capital projects fund because the capital projects fund does not assume the liability for retirement of the bonds or for the payment of interest on bonds outstanding. Once bonds are issued, the longterm liability is recorded in and reported by the general long-term debt account group as long as the bonds are outstanding. The responsibility for bond interest payment and bond principal retirement at maturity is placed upon a debt service fund and/or the general fund.

BUDGETARY ACCOUNTS IN CAPITAL PROJECTS FUNDS

Authority to expend the proceeds of a bond issue is granted by the board of education when all procedures required by law have been fulfilled. Procedures necessary for issuing bonds and for securing other sources of revenue needed for a capital projects fund are initiated by the school board.

If approval of the voters is required, a proposal setting forth the terms of the bond issue and the purposes for which the bond proceeds are to be used is presented to the voters as required by law. If approval of a governmental unit under which the school district operates is required, all procedures prescribed by that governmental unit must be completed. Therefore, budgetary accounts for both revenue and expenditures are as helpful to the board and to management during the life of a capital projects fund as they are to the general fund because large sums of money are required for capital projects and the life of a capital projects fund often extends over a number of years. An example follows:

THE CONTROLLING ACCOUNTS IN THE GENERAL LEDGER

REVENUE – GENERAL LEDGER CONTROLLING ACCOUNTS

DATE		EXPLANATION	P R	ESTIMATED		ACTUAL		UNREALIZED BALANCE
19––								4,500,000
Sept.	1	Budget adopted	1	4,500,000			1,500,000	3,000,000
	8	State approval	3				800,000	2,200,000
Oct.	1	Bonds issued	4				2,000,000	200,000
	5	Federal approval	4				200,000	–
Nov.	1	Bonds issued	6					
19––					4,500,000	4,500,000		
June	30	Closing entry	9	4,500,000	4,500,000	4,500,000	4,500,000	–

THE SUBSIDIARY REVENUE LEDGER ACCOUNTS

REVENUE FROM BONDS ISSUED

DATE		EXPLANATION	P R	BONDS AUTHORIZED AND UNISSUED		REVENUE FROM BONDS ISSUED		UNREALIZED
19—								1,000,000
Sept.	1	Bonds authorized	1	1,000,000			800,000	200,000
Oct.	1	Bonds issued	3				200,000	–
Nov.	1	Bonds issued	5					
19—					1,000,000	1,000,000		–
June	30	Closing entry	87	1,000,000	1,000,000	1,000,000	1,000,000	–

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REVENUE FROM STATE SOURCES

DATE		EXPLANATION	P R	ESTIMATED		ACTUAL		UNREALIZED BALANCE
19——								
Sept.	1	Budget adopted	1	1,500,000				1,500,000
	8	State approval	3				1,500,000	–
19——								
June	30	Closing entry	9		1,500,000	1,500,000		–
				1,500,000	1,500,000	1,500,000	1,500,000	–

REVENUE FROM FEDERAL SOURCES

DATE		EXPLANATION	P R	ESTIMATED		ACTUAL		UNREALIZED BALANCE
19——								
Sept.	1	Budget adopted	1	2,000,000				2,000,000
Oct.	5	Federal approval	4				2,000,000	–
19——								
June	30	Closing entry	9		2,000,000	2,000,000		–
				2,000,000	2,000,000	2,000,000	2,000,000	–

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The amount of revenue that can be raised by a bond issue and from all other sources for specified capital projects is limited. To assist management in realizing all revenue that is available to a capital projects fund, budgetary accounting for revenue is as important as in the general fund. Therefore, estimated revenue and actual revenue accounts are used in each capital projects fund.

Authority granted by the board of education to administrative officers to make expenditures in a capital projects fund is an appropriation, just as it is in the general fund. As a result, budgetary accounts are established in capital projects funds to control expenditures and they serve the same purposes for capital projects funds as they serve for the general fund. Expenditure controls are provided by general ledger and subsidiary ledger accounts for appropriations, encumbrances, and the reserve for encumbrances.

Because of the amount of money involved, the number of contracts issued, the number of revisions made in contracts during the life of a capital projects fund, and the length of time required to complete a capital project, it is as important to a school system that it have as effective control over expenditures for each capital projects fund as it is to have control over expenditures of the general fund. Budgetary control over expenditures is effectively gained in capital projects funds by use of the following expenditure account form in both the general ledger and subsidiary expenditure ledger:

DATE			P R	ENCUMBRANCES		EXPENDITURES		APPROPRIATIONS		UNENCUMBERED BALANCE

These expenditure accounts are used as a basis for interim financial reporting during the life of each capital project fund. The budgetary expenditure accounts in the general ledger and/or in the subsidiary expenditures ledger serve effectively to prevent expenditures and encumbrances from being made in excess of the appropriation for each object.

The accounts of a capital projects fund operate on a basis similar to accounts in the general fund; however, there are some major differences. In fact, all revenue needed for a capital project is usually authorized before a capital projects fund is created, not on an annual or fiscal year basis as it is in the case of the general fund. Furthermore, appropriations which authorize expenditures in a capital projects fund do not lapse at the end of a year or fiscal period as they do in the case of the general fund. Although many accountants continue to close all capital projects funds' revenue and expenditure accounts at the end of each year or fiscal period, a need for year-end closing entries in capital projects funds does

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not exist. All capital projects fund accounts, budgetary and proprietary, are kept open until the purposes for which the capital projects fund was created have been accomplished. The revenue accounts continue accumulating total revenue that is provided for a capital project and expenditure accounts continue to accumulate total costs until the project is completed.

RELATIONS WITH OTHER FUNDS

A capital projects fund is created to record and report the effect of all transactions that take place as a result of the authorization and issuance of capital project fund bonds and to account for revenue from all sources which is restricted to achieving specified capital project objectives such as acquiring land, buildings, equipment, etc. Revenue from these sources must be used strictly in accordance with the purposes specified. After all bonds have been issued and revenue from all other sources has been expended for the purposes authorized, the capital projects fund accounts are closed. The capital projects fund serves no further purpose other than to provide a record of what happened to the money.

The liability created by the bond issue is recorded and reported, as long as the bonds are outstanding, as a part of another group of accounts known as the general long-term debt account group.

Because a capital projects fund is not responsible for retirement of the principal of bonds issued for capital projects purposes and for interest on them, a debt service fund is created when the bonds are issued to serve these purposes for the school system. A debt service fund is created for each bond issue.

General fixed assets acquired as a result of expenditures in capital projects funds are recorded and reported as a part of another separate self-balancing group of accounts known as the general fixed assets account group. As construction expenditures and/or other costs are incurred in the long period of time required for completing the capital project, construction in process accounts may be recorded in the general fixed asset account group.

If, on the other hand, a capital projects fund is created to acquire fixed assets for an enterprise fund or an internal service fund, the fixed assets become a part of the enterprise fund or the internal service fund where they are recorded as assets of these funds and not as assets in the general fixed assets account group. However, these fixed assets are reported in footnotes to the financial statements of the general fixed assets account group. Because internal services funds and enterprise funds can record long-term liabilities along with fixed assets, it is infrequent that capital projects funds would be used to acquire fixed assets for these special purpose funds.

Accounting principles and procedures have been developed by the Governmental Accounting Standards Board which have been adopted by and modified, where necessary, to meet the needs of elementary and secondary school systems by the National Center for Education Statistics and by the Association of School Business Officials for debt service funds, the general long-term debt group of accounts and the general fixed assets group of accounts. A separate chapter of this book is devoted to debt service funds and to each of these account groups.

In the event all assets of a capital projects fund are not used or needed to complete the capital projects, the remaining assets, by direction of the board of education in accordance with the bond indenture, may be transferred either to the general fund or to the debt service fund created to accumulate resources in amounts sufficient to retire the bonds that were issued to finance the capital projects at the maturity date of the bond issue.

TYPICAL CAPITAL PROJECTS FUND TRANSACTIONS

The following entries illustrate typical capital projects fund transactions. When all legal procedures have been completed and bonds have been authorized to be issued, the following entry is made in the general journal of the capital projects fund:

19--			
May 12	Bonds authorized and unissued	50,000	
	Appropriations, capital improvements		50,000
	To record authorization to issue capital projects fund bonds.		

As bonds are issued by the school system or the governmental unit under which the school district operates, the following entry is made:

20	Cash or due from other governmental unit	50,000	
	Revenue from bonds issued		50,000
	To record sale of bonds.		

When the other governmental unit, if used, deposits the cash in the capital projects fund, the following entry is made:

21	Cash	50,000	
	Due from other governmental unit		50,000
	To record collection of cash from other governmental unit.		

The cash now on hand can be used for the purposes designated. At this point, assume that the money is to be used for certain improvements. When part of the improvements are completed and payment is approved, the following entry is made:

4	Expenditures, capital improvements	20,000	
	Accounts payable		20,000
	To record expenditures for improvements.		

When purchase orders or other forms of financial commitment are issued for certain authorized improvements, the following entry is made:

6	Encumbrances, capital improvements	20,000	
	Reserve for encumbrances		20,000
	To record estimated cost of authorized improvements.		

When improvements authorized have been completed and the final contract price is determined, the following two entries are made:

15	Reserve for encumbrances	20,000	
	Encumbrances, capital improvements		20,000
	To reverse encumbrances entry.		
15	Expenditures, capital improvements	21,000	
	Accounts payable		21,000
	To record expenditures for authorized improvements.		

Assume that additional purchase orders and commitments are issued for authorized improvements, the following entry is recorded:

20	Encumbrances, capital improvements	8,000	
	Reserve for encumbrances		8,000
	To record estimated cost of authorized improvements.		

The entry to record payment on accounts payable is recorded as follows:

21	Accounts payable	15,000	
	Cash		15,000
	To record payment of account.		

A trial balance of the capital projects fund prepared at this point is as follows:

NEW HOPE SCHOOL SYSTEM
Capital Projects Fund
Trial Balance
(Date)

Cash	$ 35,000	
Accounts payable		$ 26,000
Reserve for encumbrances		8,000
Bonds authorized and unissued		50,000
Appropriations, capital improvements		50,000
Revenue from bonds issued		50,000
Expenditures, capital improvements	41,000	
Encumbrances, capital improvements	8,000	
Total	$134,000	$134,000

Assume that the capital projects fund makes the following expenditure for improvements which were originally estimated to cost $8,000. The two following entries are made:

5	Reserve for encumbrances	8,000	
	Encumbrances, capital improvements		8,000
	To reverse the encumbrances entry.		
5	Expenditures, capital improvements	7,600	
	Accounts payable		7,600
	To record expenditure for authorized improvements.		

Assume that all accounts payable are paid, the following entry is made:

20	Accounts payable	33,600	
	Cash		33,600
	To record payment of accounts payable.		

At this point, assume that all authorized improvements have been completed. A trial balance of the accounts appears as follows:

NEW HOPE SCHOOL SYSTEM
Capital Projects Fund
Trial Balance
(Date)

Cash	$ 1,400	
Expenditures, capital improvements	48,600	
Appropriations, capital improvements		$50,000
Total	$50,000	$50,000

When the purpose for which the capital projects fund was created has been served, the accounts of the fund are closed. The following entries close the appropriation and expenditures accounts:

31	Appropriations, capital improvements	50,000	
	Expenditures, capital improvements		48,600
	Revenue and expenditure summary		1,400
	To close the expenditures and appropriation accounts.		
31	Revenue and expenditure summary	1,400	
	Capital projects fund equity		1,400
	To close the revenue and expenditure summary account.		

The capital projects fund has a remaining cash balance of $1,400. The amount of cash represents the excess amount of bonds issued over the actual cost of authorized improvements. Reference to the trust agreement may provide a number of ways by which the board may make disposition of the remaining cash balance. Some may advocate transfer of the balance to the general fund; however, the expenditure of the cash by the general fund for purposes other than those authorized when bonds were issued would not be in accordance with the purposes for which the bonds were issued. Therefore, in this case, the board would probably direct that the cash be transferred to the debt service fund created for the purpose of accumulating sufficient cash to retire the bond issue when it matures. The entry to record the transfer of the remaining cash balance to the debt service fund appears as follows:

31	Capital projects fund equity	1,400	
	Due to debt service fund		1,400
	To record authority to transfer theremaining cash to the debtservice fund, leaving an audit trail to in dicate what happened to the remaining cash balance in the fund.		
31	Due to debt service fund	1,400	
	Cash		1,400
	To record transfer of cash to the debt service fund.		

When the cash balance is transferred to the debt service fund, the capital projects fund accounts are closed, the fund having served completely the purpose for which it was created.

SEPARATE CAPITAL PROJECTS FUNDS FOR EACH PROJECT

A separate capital projects fund should be created for each capital project to provide financial management control of each capital project. A capital project may be to achieve one purpose such as acquisition of land or for construction of a building. Or a capital project may include a combination of objectives such as the acquisition of land, the construction of one or more buildings, the purchase of machinery and equipment, the remodeling, expansion or renovation of certain other fixed assets, the absorption of a fund deficit, and/or the retirement of bonds payable. Each capital projects fund should have its own separate, self-balancing set of accounts.

Because sources of revenue of a capital projects fund may be few in number, it may not be necessary for a subsidiary revenue ledger to be maintained which would contain accounts for both estimated and actual revenue from each source but, instead, revenue accounts for both budgeted revenue and actual revenue from each source would be maintained in the general ledger. In either case, it is necessary that adequate standards of budgetary accounting control for each source of revenue be maintained in each capital projects fund.

If authorized expenditures of a capital projects fund are restricted to a few objects, a subsidiary expenditures ledger containing accounts for appropriations, expenditures and encumbrances for each object may not be required but, instead, appropriation, expenditure, and encumbrance accounts for each object may be maintained in the general ledger. In both cases, the reserve for encumbrances account is maintained in the general ledger. However, in either case, it is essential for each capital projects fund to have adequate standards of budgetary accounting control for each expenditure object.

FINANCIAL STATEMENTS OF CAPITAL PROJECTS FUNDS

From the trial balance, all financial statements of capital projects funds can be prepared. As budgetary and actual revenue and expenditure accounts of each capital projects fund are not closed until the capital project is completed, interim financial statements are prepared for each fund. These interim financial statements, prepared for management purposes, are: the balance sheet, the statement comparing estimated and actual revenue, the statement of expenditures and encumbrances compared with appropriations, the statement of changes in fund equity, and the statement of changes in financial position. Because significant financial resources are provided for school systems through revenue accounts in capital projects funds and because material financial resources are applied through expenditure accounts of capital projects funds, the financial magnitude of a school district is not disclosed fully unless the financial statements for capital projects funds include a statement of changes in financial position.

Reference is made to Chapter 9 and its section "Accompanying Financial Statements" in which Statement 1 of GASB was quoted to indicate the financial statements that are required for the Comprehensive Annual Financial Report. Applying these concepts, illustrations are taken from school systems that have been awarded the Certificate of Excellence in Financial Reporting by ASBO.

The problem of combining financial statements of all capital projects funds is similar to the problem of combining financial statements for special revenue funds. Later in the chapter illustrations of individual and combined financial statements are presented.

THE USE OF CAPITAL PROJECTS FUNDS FOR PURPOSES OTHER THAN PURCHASE OR CONSTRUCTION OF ASSETS

Bonds may be issued to eliminate a fund deficit or to refund a maturing bond issue. Because of economic conditions or other events occurring subsequent to the issue of bonds, it may be impossible to assess and levy a tax each year to produce sufficient revenue for a debt service fund to retire a bond issue. Therefore, a capital projects fund may be authorized to make expenditures to retire a maturing bond issue.

If bonds are issued in a capital projects fund to eliminate a deficit of a fund, when money is transferred from the capital projects fund to a fund having a deficit, assuming the deficit is in the general fund, the following entry is made:

2	Transfers to the general fund	XXX	
	Due to the general fund	XXX	
	To record the expenditure to trans fer money to absorb a deficit in the general fund.		
8	Due to the general fund	XXX	
	Cash		XXX
	To record transfer of cash to the general fund.		

When money in a capital projects fund is to be used in a debt service fund for the purpose of retiring matured bonds payable, the following entry is made:

1	Transfers to debt service fund	XXX	
	Due to debt service fund		XXX
	To record expenditure to transfer amount to the debt service fund to retire bonds.		
1	Due to debt service fund	XXX	
	Cash		XXX
	To record transfer of cash to the debt service fund.		

Transfer of money generated by revenue of a capital projects fund created for these purposes is recorded through a fund balance account such as "transfer to the general fund" to distinguish it from an expenditure account. When fund equity is no longer needed, a transfer is recorded by a debit to a fund equity account of the transferring fund as no additional expenditures are required for the purpose for which the fund was created. The recipient fund records the transfer by crediting a fund equity account such as "transfer from capital projects fund" to distinguish it from a revenue account as no additional revenue is generated for the school district by the transaction.

BOND PREMIUMS AND BOND DISCOUNTS

A bond premium exists when a bond issue is sold at a price in excess of the principal amount of the bonds. If a bond issue does produce a premium, the question arises as to its proper disposition because the money can not be used as an additional expenditure in excess of the appropriation for the capital project. In all probability, the board of education would direct that the premium be transferred to the debt service fund charged with the responsibility of paying the principal and/or interest on the bonds issued to finance the capital projects fund.

A bond discount exists when a bond issue is sold at a price less than that of the principal amount of the bonds. In many instances, the sale of bonds at a discount is prohibited. However, in the event a bond issue does produce a discount, the facts of the case should be fully disclosed as shown in the following illustration.

As an illustration, assume that bonds are authorized in the amount of $100,000 and that the entire amount is to be used for purchase of land. The entries to create the capital projects fund and to record their issue are as follow:

3	Bonds authorized and unissued	100,000	
	Appropriations, land		100,000
	To record authorization to issue capital projects fund bonds for purchase of land.		
8	Cash	98,800	
	Appropriations, land	1,200	
	Revenue from bonds issued		100,000
	To record the sale of bonds at a discount.		

After posting these transactions to the general ledger, they would appear as follows:

Cash

8	98,800	

REVENUE FROM BONDS ISSUED

DATE		EXPLANATION	P. R.	BONDS AUTHORIZED AND UNISSUED		REVENUE FROM BONDS ISSUED		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	
	3			100,000				100,000
	8						100,000	—0—

EXPENDITURES: LAND

DATE		EXPLANATION	P. R.	ENCUMBRANCES	EXPENDITURES	APPROPRIATION		UNENCUMBERED BALANCE
	3						100,000	100,000
	8					1,200		98,800

Observe that the appropriation is reduced to the amount of cash that is available for use. Not identified as a discount on bonds payable in the capital projects fund, the only accounting disclosure that the discount caused a reduction in the appropriation is the general journal entry. Therefore, for management to be informed through accounting reports and statements what did happen, it would be a sound business practice for the board of education to provide a budgeted fund balance at the time of appropriating money for capital project expenditures. The following illustrates how the facts may be fully disclosed:

A. Assume a bond issue is authorized for $100,000 and that the board appropriates $98,800 for capital projects expenditures. The entry to record the budget is as follows:

Bonds authorized and unissued	100,000	
Appropriations, building		98,800
Budgeted fund balance		1,200
To record capital project budget.		

B. Assume that the bonds could be sold at $99,000. Prior to issuing the bonds, the board of education would authorize an additional appropriation of

$1,000 to acknowledge that the discount on bonds issued is a part of the cost of the capital project. The additional appropriation would be recorded as follows:

Budgeted fund balance	1,000	
Appropriation, discount on bonds issued		1,000
To record approval to issue bonds at a discount.		

C. Assume that the bonds did sell for $99,000. The entry to record the sale is as follows:

Cash	99,000	
Expenditures, discount on bonds issued	1,000	
Revenue from bonds issued		100,000
To record the sale of bonds at a discount.		

Observe that $200 remains in the budgeted fund balance account and may be appropriated by action of the board to cover future, but presently unknown and unanticipated costs. This procedure does not authorize expenditures in excess of appropriations for purposes contained in the budget.

CONTRACTS PAYABLE, RETAINED PERCENTAGE

A most effective management accounting technique can be used which includes accounts to record a provision in all capital projects fund construction contracts to withhold a stated percentage or stated amount of the total contract price for a reasonable period of time at the conclusion of each project to permit the school district to conduct a thorough and complete inspection of the project and to satisfy itself that the provisions of the contract have been satisfactorily completed. Inspection is usually a service of the architect, who notifies the contractors of unacceptable conditions in the project, if any. Upon correction of these conditions, the architect issues a certificate of satisfactory completion to the school district, which it uses as the basis for releasing the retained percentage to the contractors. The amount to be retained should be sufficient to encourage the contractor to correct all items identified by the architect at the earliest possible date. In this way, school systems can expedite early, total completion of capital projects.

An illustration of entries to record use of the contracts payable retained percentage accounting procedure is contained in entries 10, 11 and 12 in illustrative transactions that follow.

ILLUSTRATION OF THE USE OF CAPITAL PROJECTS FUNDS

Typical of the use of capital projects funds is that of a state which permits a capital projects fund, identified as a building fund, to receive cash from the sale of bonds. In addition, this fund may receive revenue from a county school tax levy, state income tax distributions, and revenue from other sources. If there is a balance left in the building fund after the building project has been completed and all claims against the building fund have been paid, the balance may be, according to the state's law, transferred to a fund established for the purpose of paying indebtedness incurred in the building project. If no indebtedness has been incurred, the unused balance in the building fund may be transferred to the general fund. Although the fund may be referred to as a building fund, it is accounted for through the use of principles of accounting applicable to capital projects funds.

In this particular case, expenditures authorized from this fund are: land, buildings, new furniture and equipment, other building expenditures, and transfers to other funds. Under the heading of new furniture and equipment, provisions are made for library books, office furniture and equipment, instructional furniture and equipment, engineers' and janitors' equipment, cafeteria and lunchroom equipment, and transportation equipment.

Because money for capital outlay also may be raised from sources other than bonds, this case illustrates that expenditures for a capital outlay project are controlled through one fund. The name by which a capital projects fund may be identified may vary but underlying principles of accounting remain the same.

ILLUSTRATIVE TRANSACTIONS

Assume that authorization had been granted to issue $500,000 of 12½ % bonds maturing in five years; a project had been approved by the state government to assist in construction in the amount of $300,000; and the project had been approved for a grant of $1,200,000 from the federal government. The governing board authorized creation of a capital projects fund for this project, designated as project number 93.

1. The Capital Project Fund No. 93 is created by the following entry:

Bonds authorized and unissued	500,000	
Estimated revenue from state sources	300,000	
Estimated revenue from federal sources	1,200,000	
Appropriations		2,000,000

To record creation of capital projects fund no. 93. Budget made appropriations as follows:

Land	50,000
Building	1,650,000
Equipment	300,000
	2,000,000

Subsidiary appropriation and expenditure ledger accounts would be created to avoid the possibility of over-expenditure of resources available for the project.

2.	Cash		500,000	
	Revenue from bonds issued			500,000
	To record issuance of 5-year bonds at face value, 12½%.			

At the time the bonds are issued, the school system becomes liable for both the principal and interest on indebtedness. As a result, a debt service fund is created to accumulate resources sufficient to pay interest throughout the life of the bonds and the principal at the maturity date of the bonds. Corresponding entries are made in the general long-term debt account group to record the long-term bonds payable. These entries will be illustrated in the following chapter and in the chapter on the general long-term debt account group.

When the project is approved and the board authorizes notification of other governmental agencies of its claims, the following entry is made:

3.	Due from state government		300,000	
	Due from federal government		1,200,000	
	Revenue from state sources			300,000
	Revenue from federal sources			1,200,000
	To record notification of state and federal agencies that the project is underway and that a claim is filed for each unit's share of its cost.			
4.	Cash		300,000	
	Due from state government			300,000
	To record collection of claim against the state government.			
5.	Cash		1,200,000	
	Due from federal government			1,200,000
	To record collection of claim against the federal government.			
6.	Encumbrances		1,800,000	
	Reserve for encumbrances			1,800,000
	To record issuance of purchase orders, signing of contracts for construction, and other documents of commitment.			
	For land	50,000		
	For buildings	1,450,000		
	For equipment	300,000		
		1,800,000		

7.	Expenditures		195,000	
	Cash			195,000
	To record expenditures for building materials not previously encumbered:			
	For buildings	$195,000		
8.	Reserve for encumbrances		50,000	
	Encumbrances			50,000
	To reverse original encumbrance:			
	For land	$50,000		
	Expenditures		50,000	
	Cash			50,000
	To record expenditure for project no. 93.			
	For land	$50,000		
9.	Reserve for encumbrances		300,000	
	Encumbrances			300,000
	To record reversal of original encumbrances:			
	For equipment	$300,000		
	Expenditures		300,000	
	Cash			300,000
	To record expenditure:			
	For equipment	$300,000		
10.	Reserve for encumbrances		1,450,000	
	Encumbrances			1,450,000
	To reverse original encumbrance for building construction:			
	For building	$1,450,000		
	Expenditures		1,448,000	
	Contracts payable			1,448,000
	To record expenditure for completion of contract:			
	For building	$1,448,000		
11.	Contracts payable		1,448,000	
	Cash			1,348,000
	Contracts payable, retained percentage			100,000
	To record payment of contract less amount to be retained until formal acceptance of building.			

The subsidiary expenditures ledger would appear as follows:

CAPITAL PROJECTS FUND No. 93
SUBSIDIARY EXPENDITURES LEDGER

CAPITAL PROJECTS FUND No. 93
SUBSIDIARY EXPENDITURES LEDGER

EXPENDITURE: Land

DATE	EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
		1						50,000	50,000
		6	50,000						—0—
		8		50,000	50,000				—0—

EXPENDITURE: Building

DATE	EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
		1						1,650,000	1,650,000
		6	1,450,000						200,000
		7			195,000				5,000
		10		1,450,000	1,448,000				7,000

EXPENDITURE: Equipment

DATE	EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
		1						300,000	300,000
		6	300,000						—0—
		9		300,000	300,000				—0—

A trial balance of the capital project fund no. 93 would appear as follows:

NEW HOPE SCHOOL SYSTEM
Capital Project Fund No. 93
Trial Balance

(Date)

Cash	$ 7,000	
Bonds authorized and unissued	500,000	
Revenue from bonds issued		$ 500,000
Estimated revenue from state sources	300,000	
Estimated revenue from federal sources		300,000
Revenue from federal sources	1,200,000	
Appropriations		1,200,000
Expenditures		2,000,000
	1,993,000	
	$4,000,000	$4,000,000

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12.	Contracts payable, retained percentage	100,000	
	Cash		100,000
	To record payment of retained percentage upon completion of the building and following formal inspection and acceptance certification by architect.		

The general ledger, including all revenue accounts, would appear as follows:

Cash

2	500,000	7	195,000
4	300,000	8	50,000
5	1,200,000	9	300,000
		10	1,348,000
		12	100,000

Contracts Payable

11	1,448,000	10	1,448,000

Contracts Payable, Retained Percentage

12	100,000	10	100,000

Due From State Government

3	300,000	4	300,000

Reserve For Encumbrances

8	50,000	6	1,800,000
9	300,000		
10	1,450,000		

Due From Federal Government

3	1,200,000	4	1,200,000

REVENUE FROM BONDS ISSUED

DATE	EXPLANATION	P. R.	BONDS AUTHORIZED AND UNISSUED		REVENUE FROM BONDS ISSUED		UNREALIZED REVENUE
			DR.	CR.	DR.	CR.	
		1	500,000				500,000
		2				500,000	—0—

REVENUE FROM STATE SOURCES

DATE	EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
			DR.	CR.	DR.	CR.	
		1	300,000				300,000
		3				300,000	—0—

REVENUE FROM FEDERAL SOURCES

DATE	EXPLANATION	P. R.	ESTIMATED REVENUE		ACTUAL REVENUE		UNREALIZED REVENUE
			DR.	CR.	DR.	CR.	
		1	1,200,000				1,200,000
		3				1,200,000	—0—

EXPENDITURE CONTROL

DATE	EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE
		1						2,000,000	2,000,000
		6	1,800,000						200,000
		7			195,000				5,000
		8		50,000	50,000				5,000
		9		300,000	300,000				5,000
		10		1,450,000	1,448,000				7,000

The closing entries for all revenue and expenditure accounts, both budgetary and actual, are as follows:

Appropriations		$2,000,000	
Expenditures			1,993,000
Revenue and expenditure summary			7,000
To close appropriations and expenditure accounts in the general ledger and in the subsidiary ledgers as follows:			
Appropriations for:			
Land	50,000		
Buildings	1,650,000		
Equipment	300,000		
	2,000,000		
Expenditures for:			
Land	50,000		
Buildings	1,643,000		
Equipment	300,000		
	1,993,000		
Revenue from bonds issued		500,000	
Revenue from state sources		300,000	
Revenue from federal sources		1,200,000	
Bonds authorized and unissued			500,000
Estimated revenue from state sources			300,000
Estimated revenue from federal sources			1,200,000
To close all revenue accounts, budgetary and actual.			
Revenue and expenditure summary		7,000	
Capital projects fund equity-No. 93			7,000
To close revenue and expenditure summary.			

Assume that the governing board authorized transfer of the unencumbered balance of the unappropriated fund equity balance to the debt service fund. The entry would appear as follows on the books of capital project fund no. 93:

Capital project fund equity— No. 93	7,000	
Due to debt service fund		7,000
To record authorization byboard to transfer unencumbered balance of the capital project fund equity to the debt service fund.		

The entry to record transfer of cash to the debt service fund would appear as follows:

Due to debt service fund	7,000	
Cash		7,000
To transfer cash to the debt service fund.		

As an exercise, using the general ledger and the subsidiary expenditures ledger presented before the preceding trial balance, post all closing entries and entries to record the disposition of the remaining cash balance to these ledgers. When you have, observe that all accounts of the capital project fund no. 93 are in balance. To complete the exercise, balance and rule all accounts in both the general ledger and subsidiary expenditures ledger. The fund has served its purpose. All books of original entry, financial statements, and documents giving evidence of the financial transactions of this fund may be bound together and filed for future use by auditors of the school district.

YEAR-END REPORTING FORMAT, CAPITAL PROJECTS FUNDS

An example of the reporting format to combine all capital projects funds financial statements is taken from the comprehensive annual financial report for the year ending June 30, 1981, of the Salt Lake School District, Salt Lake City, Utah. It is as follows:

Capital Outlay Fund—To account for resources collected by property taxes authorized by Utah Code Annotated (1953, as amended), Sections 53-7-8.1 and 53-7-23. Taxes collected pursuant to this authority can be used for Debt Service, new buildings, additions and equipment and to a limited extent for textbooks and supplies. Resources necessary to satisfy debt service requirements are allocated to and accounted for in the Debt Service Fund. The remaining resources from this source are accounted for in the Capital Outlay Fund. Major projects among the numerous capital projects for fiscal year 1981 are the new M. Lynn Bennion Elementary School, the new Highland High Gym, and planning and design for the new Jackson Elementary School.

Capital Bonding Program—To account for the resources provided by the sale of general obligation bonds to finance new construction, remodeling, and equipment. There is a schedule of projects financed by these resources included in the financial statements.

CAPITAL PROJECT FUNDS
COMBINING BALANCE SHEET

June 30, 1981
With Comparative Totals for June 30, 1980

	Capital Outlay	Capital-Bonding Program	Totals 1981	Totals 1980
ASSETS				
Investments, at cost plus accrued interest	$ 4,251,334	$ 2,785,407	$ 7,036,741	$14,538,824
Delinquent property taxes receivable (Note 3)	353,360	—	353,360	369,601
Prepaid expenditures	3,145	—	3,145	246,750
Contracts receivable plus accrued interest (Note 4)	2,334,922	—	2,334,922	2,452,434
Total Assets	$ 6,942,761	$ 2,785,407	$ 9,728,168	$17,607,609
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	$ 888,249	$ 74,638	$ 962,887	$ 2,414,549
Due to Maintenance and Operation Fund	99,724	—	99,724	13,227
Deferred property tax revenue	460,396	—	460,396	258,207
Deferred revenue on contracts receivable	2,170,039	—	2,170,039	2,295,412
Total liabilities	3,618,408	74,638	3,693,046	4,981,395
Fund Balance:				
Reserved for encumbrances	703,665	493,110	1,196,775	6,146,161
Unreserved—unappropriated	2,620,688	2,217,659	4,838,347	6,480,053
Total Fund Balance	3,324,353	2,710,769	6,035,122	12,626,214
Total Liabilities and Fund Balance	$ 6,942,761	$ 2,785,407	$ 9,728,168	$17,607,609

See notes to financial statements.

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CAPITAL PROJECT FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

June 30, 1981
With Comparative Totals for June 30, 1980

	Capital Outlay	Capital-Bonding Program	Totals 1981	Totals 1980
REVENUES				
Local sources	$ 3,815,917	$ —	$ 3,815,917	$ 6,908,665
Federal sources	4,681	—	4,681	—
Total Revenues	3,820,598	—	3,820,598	6,908,665
OTHER FINANCIAL SOURCES				
Sales of bonds	—	—	—	7,000,000
Sale of real property	134,823	—	134,823	125,112
Total Revenues and Other Sources	3,955,421	—	3,955,421	14,033,777
EXPENDITURES				
General supervision	75,517	27,081	102,598	108,696
Site acquisitions and improvements	495,289	730,016	1,225,305	1,175,289
Construction	6,168,988	1,561,303	7,730,291	14,511,932
Equipment	341,371	982,941	1,324,312	727,448
Other expenditures	164,007	—	164,007	170,388
Total Expenditures (Note 2)	7,245,172	3,301,341	10,546,513	16,693,753
Excess (deficiency) of Revenues and Other Sources over Expenditures	(3,289,751)	(3,301,341)	(6,591,092)	(2,659,976)
Fund Balance Unappropriated—July 1	2,250,910	4,229,143	6,480,053	2,632,592
Decrease in reserve for encumbrances	3,659,529	1,289,857	4,949,386	6,507,437
Fund Balance Unappropriated—June 30	$ 2,620,688	$ 2,217,659	$ 4,838,347	$ 6,480,053

See notes to financial statements.

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ILLUSTRATION OF YEAR-END FINANCIAL STATEMENTS FOR CAPITAL PROJECTS FUNDS

An illustration of year-end financial statements of capital projects funds is taken from the comprehensive annual financial report of the Board of Education and the Public Schools of Anne Arundel County for the fiscal year ended June 30, 1981, Annapolis, Maryland 21401, publication number 2092/2. It is as follows:

BOARD OF EDUCATION OF ANNE ARUNDEL COUNTY EXHIBIT E

CAPITAL PROJECTS FUND
BALANCE SHEET
JUNE 30, 1981
WITH COMPARATIVE AMOUNTS FOR 1980

	1981	1980
ASSETS		
Cash and Temporary Investments (Investments at Cost Which Approximates Market)	$ 942,030	$ 3,173,578
Due from Other Governments:		
Anne Arundel County	5,676,803	4,694,507
State of Maryland School Construction Program	8,393,298	7,672,366
Accounts Receivable	153,007	213,948
Total Assets	$15,165,208	$15,754,399
LIABILITIES AND FUND BALANCE		
Accounts Payable—Including Retainages	$ 748,780	$ 404,605
Fund Balance:		
Reserved for Encumbrances	7,755,434	11,924,207
Unreserved:		
Designated for Subsequent Years' Expenditures	6,393,135	3,039,117
Undesignated	267,859	386,470
Total Fund Balance	14,416,428	15,349,794
Total Liabilities and Fund Balance	$15,165,208	$15,754,399

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BOARD OF EDUCATION OF ANNE ARUNDEL COUNTY

Exhibit F

Capital Projects Fund
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 1981
With Comparative Amounts for 1980

	1981	1980
Revenues:		
Anne Arundel County	$ 5,556,340	$ 5,047,310
State of Maryland School Construction Program	4,692,594	7,349,443
Investment Interest Earned	314,389	366,526
Other	17,333	9,020
Total Revenues	10,580,656	12,772,299
Current Year Expenditures	11,514,022	4,510,858
Excess of Revenue Over (Under) Expenditures	(933,366)	8,261,441
Fund Balance—July 1	15,349,794	7,088,353
Fund Balance—June 30	$14,416,428	$15,349,794

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BOARD OF EDUCATION OF ANNE ARUNDEL COUNTY

Capital Projects Fund
Schedule of Cumulative Expenditures, Encumbrances and Appropriations
June 30, 1981

	Cumulative Expenditures June 30, 1980	Expenditures Current Fiscal Year	Cumulative Expenditures June 30, 1981	Encumbrances	Appropriations	Unencumbered Balance of Appropriations
CONSTRUCTION IN PROGRESS:						
Elementary/Special Education Schools:						
Annapolis Additions and Renovations						
Remodeling	$ 34,372	$ —	$ 34,372	$ 11,765	$ 46,200	$ 63
Area III—Special Education Center						
Building	—	2,595	2,595	30	200,000	197,375
Eastport Additions and Renovations—						
III Remodeling	5,523	—	5,523	—	36,000	30,477
Edgewater Additions and Renovations						
Remodeling	19,615	—	19,615	—	101,960	82,345
West Annapolis Additions and Renovations						
Remodeling	3,931	—	3,931	—	48,000	44,069
Total Elementary/Special Education Schools	63,441	2,595	66,036	11,795	432,160	354,329
Secondary Schools:						
Broadneck Area Senior						
Land	626,288	—	626,288	—	625,000	(1,288)
Site Improvement	426,770	722,260	1,149,030	218,970	1,474,000	106,000
Building	1,543,836	5,144,135	6,687,971	1,776,563	8,570,000	105,466
Equipment	—	—	—	40,798	2,048,300	2,007,502
	2,596,894	5,866,395	8,463,289	2,036,331	12,717,300	2,217,680
Renovations of Severn and Chesapeake Halls for Bates Junior High						
Remodeling	643,320	3,060,759	3,704,079	109,094	3,835,000	21,827
Equipment	—	556	556	318,192	586,800	268,052
	643,320	3,061,315	3,704,635	427,286	4,421,800	289,879
424 Area Middle						
Land	384,866	—	384,866	—	400,000	15,134
Site Improvement	—	262,588	262,588	537,412	840,000	40,000
Building	162,590	269,945	432,535	4,599,912	5,332,650	300,203
Equipment	—	—	—	—	898,000	898,000
	547,456	532,533	1,079,989	5,137,324	7,470,650	1,253,337
Total Secondary Schools	3,787,670	9,460,243	13,247,913	7,600,941	24,609,750	3,760,896

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BOARD OF EDUCATION OF ANNE ARUNDEL COUNTY

Schedule 5

Capital Projects Fund
Schedule of Cumulative Expenditures, Encumbrances and Appropriations
June 30, 1981

	Cumulative Expenditures June 30, 1980	Expenditures Current Fiscal Year	Cumulative Expenditures June 30, 1981	Encumbrances	Appropriations	Unencumbered Balance of Appropriations
Other:						
Athletic Field Renovations	$ 18,796	$ 92,673	$ 111,469	$ 30,689	$ 226,580	$ 84,422
Future Site Acquisitions	2,535,265	400	2,535,665	—	4,626,163	2,090,498
Major Roof Repairs—1980-81	—	686,642	686,642	103,936	800,000	9,422
Pre-Project Planning Monies	43,555	—	43,555	—	48,535	4,980
Remodeling Various Schools—1980-81	—	44,123	44,123	648	76,000	31,229
Replacement of Rotary Cup Burners—1980-81	—	116,257	116,257	2,155	139,500	21,088
Ventilation of Art, Shop and Science Rooms—1980-81	—	132,773	132,773	5,270	150,000	11,957
Total Other	2,597,616	1,072,868	3,670,484	142,698	6,066,778	2,253,596
TOTAL CONSTRUCTION IN PROGRESS	6,448,727	10,535,706	16,984,433	7,755,434	31,108,688	6,368,821
PROJECTS COMPLETED IN CURRENT YEAR	14,165,872	978,316	15,144,188	—	15,168,502	24,314
Total Capital Projects Fund	$20,614,599	$11,514,022	$32,128,621	$7,755,434	$46,277,190	$6,393,135

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Chapter 12
Capital Projects Funds

QUESTIONS

12-1. For what purposes are bonds issued by a school system and how do they differ from notes?

12-2. What are the two most frequently used types of bonds and how are they different?

12-3. Who has the power to issue bonds, the proceeds of which are to be used by school systems?

12-4. What general journal entry is made to record the authorization of a bond issue of $100,00 of which $95,000 is designated for a building?

12-5. What is a school system's capital projects fund and for what purposes may it be used?

12-6. Prepare general journal entries necessary to record authorization of a $100,000 bond issue for a school system and for the cash sale of the entire issue.

12-7. Give the general journal entries necessary to close the capital projects fund accounts created in question 12 6, assuming total expenditures were $99,150 and that they were paid. Also give the general journal entry to transfer any cash remaining to the debt service fund for payment of interest.

12-8. What ways may be used by the board of education for disposition of cash remaining in a capital projects fund after all debts are paid and the project is completed? Which is preferred?

12-9. Proceeds of a bond issue may be used for construction or other capital expenditure. For what other purposes may bonds be issued by a school system?

12-10. What is a bond premium and what is a bond discount?

12-11. Are budgetary accounts used in capital projects funds? If so, why?

12-12. The board of education is under an obligation to use proceeds of a bond issue only for certain specified purposes. How can the local school board ascertain that proceeds of a bond issue are being used properly?

CASES AND PROBLEMS

12-1. On June 25, 19--, the Phelps City School System received authorization to issue bonds in the amount of $75,000 for improvements on certain buildings. The following transactions took place subsequent to the authorization:

A. $60,000 of bonds were sold on July 1.
B. On July 6 contracts were issued for improvements estimated to cost $63,000.
C. The remaining bonds were sold July 8.
D. Certain materials were purchased on account on July 27, invoices amounting to $12,000.
E. The improvements were completed on August 15 at a total contract price of $59,000 and the invoice was received.
F. Accounts payable were paid in full on August 30.

INSTRUCTIONS;

Using a capital projects fund general journal, prepare entries to record the authorization of the bonds and the transactions that occurred as outlined above.

12-2. On March 15, 19--, the City of Green Lake School System was authorized to issue bonds in the amount of $800,000 for remodeling and refurnishing Franklin School. The following transactions took place subsequent to the authorization:

A. On April 1, all bonds were sold by the City of Green Lake School System at face value.
B. Contracts were let for remodeling estimated on May 2 to cost $600,000. C. Contracts were signed for refurnishing estimated on May 14 to cost $175,000.
D. All remodeling was finished on August 15, and the invoice was $612,000.
E. The invoice for all furnishings arrived August 17, the total being $171,000.
F. All accounts payable were paid on September 1.

INSTRUCTIONS:

1. Prepare general journal entries, using the capital projects fund, to record authorization of the issue and the transactions that took place.
2. Prepare a trial balance of the capital projects fund as of June 1, 19--.

3. Prepare a trial balance of the capital projects fund as of September 1, 19--.
4. Record in general journal form the entry necessary to transfer the remaining cash in the capital projects fund to the debt service fund and to close all accounts of the capital projects fund.

12-3. The Rettick Township Schools on January 2, 19--, was authorized to issue $1,000,000 in bonds for the construction of a new school building. During the year the following transactions took place and affected the capital projects fund:

A. All of the bonds were sold on January 31 for cash.
B. On February 1, the contract calling for construction of the building at a cost of $950,000 was signed.
C. On November 30, construction was completed and the contract was paid in full upon acceptance.

INSTRUCTIONS:

1. Using the capital projects fund general journal, prepare entries to record authorization of the bonds.
2. Record transactions that took place during the year.
3. Close the accounts.
4. Record the entry necessary to transfer the remaining cash balance to the debt service fund.

12-4. On September 1, 19--, Bell County School Board appropriated $1,500,000 to erect a new school building and furnish it and to repair and replace the Jamestown School driveways and walks. Of this amount $950,000 was appropriated for the new building, $350,000 to furnish it and $200,000 for repairing and replacing the Jamestown School driveways and walks. To finance these projects, the board received authorization to issue $1,500,000 in bonds. As of the following January 1, among account balances of the capital projects fund the following appeared:

Cash	$1,100,000
Bonds authorized and unissued	1,500,000
Appropriations	1,500,000
Revenue from bonds issued	1,100,000

The following transactions took place during the calendar year beginning January 1, 19--;

A. The remaining bonds were sold on January 31.
B. A contract for replacing and repairing driveways and sidewalks was signed, cost estimated at $175,000 on February 1.

C. On February 15, contract was signed for the new building, estimated to be $900,000.
D. The purchase orders for furnishing the new building were issued, cost estimated to be $325,000 on April 13.
E. The repairing and replacing of driveways and sidewalks was completed on August 12 at a cost of $170,000; this amount was paid on the same date.

INSTRUCTIONS:

1. Record account balances in the general and subsidiary ledgers.
2. Prepare general journal entries for the transactions that took place during the calendar year and post to the general and subsidiary ledgers.
3. Prepare an interim statement of appropriations, encumbrances and expenditures of the capital projects fund as of September 1 of the current year.
4. Prepare a trial balance as of September 1 of the current year.

13

DEBT SERVICE FUNDS

The need for money to construct, equip, expand, and/or remodel school facilities continues to exist. If this amount of money could be raised each year as needed through grants-in-aid from public or private sources or from local taxes, it would be possible for each school system to keep up with demands. However, the amount of money needed frequently is not available in lump sum from current annual revenue sources and school systems have to get money from sources such as bond issues.

Once a school system borrows money by issuing bonds, it is faced not only with the problem of paying interest on bonds payable annually but it is also faced with the problem of retiring the bonds when they mature. Debt service funds are created to serve as the accounting device through which long-term debt can be managed effectively as long as bonds payable are outstanding.

NATURE OF DEBT SERVICE FUNDS

Two methods are frequently used by school systems to retire outstanding bonds and to pay interest on them. The method selected is determined, in part at least, by the type of bonds issued. One type of bonds can be retired and interest on them paid each year from the general fund when revenue of the general fund is adequate. This type is referred to as serial bonds, a part of which is retired annually over the outstanding life of the issue. The second type is referred to as term bonds, the entire principal of which comes due or matures on one date, the type usually retired through use of a debt service fund. When debt service funds are used, interest can be paid either by the debt service fund or by the general fund.

Debt service funds are used to pay interest on bonds payable and to accumulate resources over the outstanding life of a bond issue in an amount equal to the maturity value. While accumulating resources, cash of the debt service fund is invested in income producing securities. At the maturity date, the securities are converted into cash which is used to retire the bonds. A set of accounting principles has been developed for debt service funds which has been found to be effective for accumulating resources over the outstanding life of a long-term bond issue to retire it at maturity.

RETIREMENT OF SERIAL BONDS

If the amount of serial bonds maturing at periodic dates is not too great each year, it is possible to pay annual interest and to retire the bonds from the general fund. This method of bond retirement requires general fund revenue annually from a tax levy or from some other source in an amount sufficient to retire the year's maturing bonds. In the general fund, appropriations can be made for debt service expenditures for bond interest and for bond principal. As retirement of serial bonds is ordinarily out of revenue of the year in which the bonds mature, there is no need to accumulate resources over a long period of time. In the general fund an appropriation usually lapses at the end of the budget period; for that reason, it is unusual that an accumulation of revenues from one year to another would be possible in the general fund.

The following illustrates how revenue from taxes in the general fund can be authorized for payment of principal and interest:

IN THE GENERAL FUND

Budgeted fund balance	24,000	
Appropriation, principal of bonds		20,000
Appropriation, interest expense bonds		4,000
To record the general fund appropriation for expenditures for bond principal retirement and annual bond interest expense.		
Expenditures, interest expense-bonds	4,000	
Cash		4,000
To record check issued to fiscal agent for payment of bond interest expense.		
Expenditures, principal of bonds	20,000	
Matured bonds payable		20,000
To record liability for currently maturing long-term bonds.		
Cash with fiscal agent, bonds	20,000	
Cash		20,000
To record check issued to fiscal agent for retirement of bond principal.		
Matured bonds payable	20,000	
Cash with fiscal agent, bonds		20,000
To record receipt of cancelled bonds from fiscal agent, completing the retirement of bonds matured.		

If, on the other hand, serial bonds mature in series during the last few years of a long life, i.e., if, for example, 20% of the issue matures each year during the 21st, 22nd, 23rd, 24th, and 25th years, debt service funds can also be used to retire what, in effect, are term bonds.

RETIREMENT OF TERM BONDS THROUGH DEBT SERVICE FUNDS

Debt service funds are established to account for the annual accumulation of resources for the retirement of long-term bonds over the outstanding life of term bonds. Annual accumulation spreads the tax burden equally over the life of the bonds. A separate group of accounts effectively provides information about each year's revenue requirements from taxation and interest earnings and provides information clearly throughout the life of the bonds about the adequacy of the fund, i.e., whether resources provided to date are equal to the accumulation schedule requirements contained in the contract with bondholders. Published financial reports prepared by some accountants continue not to contain this vital information for management, the board of education, taxpayers or the bondholder.

Revenue of a debt service fund usually is raised through taxation and earnings on investments. Taxes can be levied for the specific purpose of debt retirement and accounting for the tax assessment, levy, and collection could be the function of the debt service fund. To relieve the debt service fund of the tax assessment, levy and collection function, frequently the levy and collection is made by either the general fund or a central tax collection agency fund which turns cash collected for it over to the debt service fund. The chapter on agency funds illustrates further operation of a tax collection agency fund.

When cash is received by the debt service fund, this fund can place it in revenue producing investments. Income earned on investments reduces taxation which would otherwise be required to retire bonds at maturity. Special accounting principles apply, therefore, to debt service funds.

Each year taxes are assessed, levied, and collected either by the debt service fund, the general fund, or a tax collection agency fund in an amount sufficient that, when added to revenue produced by interest earned on investments, the aggregate amount accumulated over the life of the bonds will be equal to the bonds' maturity value. The tax levy can be a special voted tax or it can be a portion of the general property tax assessment and levy.

BUDGETARY ACCOUNTS IN DEBT SERVICE FUNDS

The page format for budgetary revenue accounts and revenue accounts in the debt service fund is identical to the page format used in the general fund; however, observe that some account titles are different. Because of the limited number of sources of revenue of a debt service fund, frequently, a subsidiary revenue ledger is not necessary. However, if needed, a subsidiary revenue can be used. Illustrations of page format for general ledger revenue accounts and subsidiary revenue ledger accounts are as follow:

REVENUE: FROM TAXATION

DATE		EXPLANATION	P. R.	REQUIRED TAXATION		REVENUE FROM TAXATION		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	

REVENUE: FROM EARNINGS

DATE		EXPLANATION	P. R.	REQUIRED EARNINGS		REVENUE FROM EARNINGS		UNREALIZED REVENUE
				DR.	CR.	DR.	CR.	

The page format for budgetary expenditure accounts, i.e. appropriations, and accounts for expenditures and encumbrances in debt services funds is identical to the page format of these accounts in the general fund. Because of the limited number of expenditure accounts needed in a debt service fund, frequently, a subsidiary expenditures ledger is not used. If needed, however, a subsidiary expenditure ledger can be used. An illustration of the page format for general ledger expenditure accounts and subsidiary expenditure accounts follows:

EXPENDITURES: DEBT SERVICE, PRINCIPAL OF DEBT

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE

EXPENDITURES: DEBT SERVICE, BOND INTEREST EXPENSE

DATE		EXPLANATION	P. R.	ENCUMBRANCES		EXPENDITURES		APPROPRIATION		UNENCUMBERED BALANCE

Required Taxation: If the general fund collects taxes for debt retirement or if the tax is collected by the debt service fund, budgetary accounts are used. Budgetary accounts in debt service funds take on different titles, however. The title of one account is "required taxation". This account records the amount that has to be raised from taxation or from other revenue sources each year to meet the bonds' accumulation schedule requirements plus the amount required to meet annual interest costs if interest is to be paid from the debt service fund.

An accumulation schedule is included in the bond prospectus prepared prior to the issuance of bonds and shows how much taxes and earnings are required each year until the fund accumulates the maturity value of the bonds at the maturity date.

In a debt service fund, this account may have another title such as "required contributions", a title frequently used in the debt service fund when taxes are collected by the general fund as revenue of the general fund and transferred to the debt service fund. This account serves debt service funds in the same way that the "estimated revenue" account serves other budgetary funds, i.e., the general fund, special revenue funds, and capital projects funds.

Required Earnings: A second budgetary account is "required earnings". This account records the amount required by the bonds' accumulation schedule to be earned each year from investments. It, too, serves the debt service fund in the same way that the "estimated revenue" account serves other budgetary funds.

Budgeted Fund Balance: If interest is to be paid from the debt service fund annually, revenue from taxes and/or other sources must be provided in the budget through the budgetary account "required taxation" which is debited with a corresponding credit to "budgeted fund balance." If interest is to be paid from this fund, an appropriation has to be made by debiting "budgeted fund balance" and crediting "appropriation, bond interest expense." The budgeted fund balance account serves the debt service fund in the same way that it serves the general fund.

Reserve for Encumbrances: The reserve for encumbrances account in the debt service fund is identical to the reserve for encumbrances account used in the general fund and it serves an identical purpose in the debt service fund.

Reserve for Debt Retirement: The reserve for debt service account is not a budgetary account, but is, instead, an appropriation of the debt service fund equity, and is introduced as a most effective debt management account. The account title is: Reserve for retirement of principal of debt. Instead of crediting either the debt service fund unappropriated equity account or a budgeted fund balance account for the total, the reserve for retirement of principal of debt account is credited each year for the combined amounts of required taxation and required earnings if interest is not to be paid by the debt service fund. If the current year's interest is to be paid by the debt service fund, budgeted fund balance is credited for the amount of revenue required to meet the current year's interest cost.

As a result, the reserve for retirement of principal of debt shows the amount required at the end of each year by the accumulation schedule throughout the life of the bonds outstanding. Annual variances between required taxation and revenue from taxes and between required earnings and revenue from earnings are closed into the revenue and expenditure summary and the balance is closed into the debt service fund equity account. The debt service fund equity account indicates each year the amount that the fund exceeds or the amount the fund falls short of the requirements of the bonds' accumulation schedule.

When information provided by use of both budgetary and actual revenue and expenditure accounts is shown in interim and annual financial statements of each debt service fund, the board of education can take whatever action is necessary to bring the fund more closely into agreement with the accumulation schedule requirements. This information, not disclosed without use of the reserve for retirement of debt account or other similar account, is important as a way to focus the attention of the board on the amount of the cumulative variances to date.

If the variance is an unfavorable variance, i.e., if it falls short of what it should be, appropriate board decision and management actions can be taken each year throughout the outstanding life of each bond issue to meet the requirements rather than to discover at the maturity of the bonds that financial resources are not available to retire the bond issue. If the variance is favorable, i.e., if the amount exceeds the requirements, decisions of the board may reduce the amount needed from taxation each year.

Appropriation, Bond Interest Expense: If the debt service fund pays interest, the budgetary account, "appropriation, bond interest expense" is credited for the amount for the year and the "budgeted fund balance" account is debited. Because the amount is already committed, a corresponding debit is made to "encumbrances, debt service-interest", and a credit is made to "reserve for encumbrances".

Appropriation, Principal of Bond Debt: The annual budget for each debt service fund must specify the amount to be appropriated for bonds maturing during the year which are to be paid from the debt service fund. The entry to record the budget debits "budgeted fund balance" and credits "appropriation, principal of bond debt". Because the amount is already committed, a corresponding debit is made to "encumbrances, principal of bond debt" and a credit is made to the "reserve for encumbrances".

DEBT SERVICE FUND ACCUMULATION SCHEDULE

The amount of cash required to retire a bond issue can be accumulated by a series of tax levies which are equal in amount when computed on an actuarial basis. As cash is collected from taxes and interest on investments, it is invested in income producing investments. This plan to retire the principal of debt is commonly called an annuity program, a series of equal additions at equal periods of time. Annuity ordinarily refers to one year but the periods may be any length of time. The interest rate is the rate per period.

The bond prospectus contains a debt service fund accumulation schedule which generally provides that annual deposits from taxation be at a fixed amount which, when added to earnings each year, will produce the maturity value of the bonds at the maturity date. The accumulation schedule is based on compound interest and compound interest or annuity tables are used to determine the equal annual required taxation. Annuity tables are published which specify the amount of an annuity of $1 per period with interest rates which range from 2% up for 1 or more periods.

For example, in order to accumulate a reserve for debt retirement of

$100,000 by a series of 5 equal tax levies which earn 10% compounded annually, a tax levy of $16,379.75 is required. From an annuity table, the amount of an annuity of $1 per period at 10% for 5 periods is found to be 6.1051. The required tax levy of $16,379.75, therefore, is computed by dividing $100,000 by 6.1051. The accumulation schedule follows:

DEBT SERVICE FUND ACCUMULATION SCHEDULE

Year	Required Annual Earnings	Required Annual Taxation	Total Additions Each Year	Accumulated Fund Total
1		$16,379.75	$ 16,379.75	$ 16,379.85
2	$ 1,637.98	16,379.75	18,017.73	34,397.48
3	3,439.75	16,379.75	19,819.50	54,216.98
4	5,421.70	16,379.75	21,801.45	76,018.43
5	7,601.82*	16,379.75	23,981.59	$100,000.00
	$18,101.25	$81,898.75	$100,000.00	

*rounded off by .02.

Assume that the tax levy resulted in revenue of $16,379.75 each year, all of which is collected. At the end of the first year, the reserve for debt retirement is $16,379.75. At the end of the second year, the reserve is increased by revenue from tax of an additional $16,379.75 plus interest of 10%. The total of the reserve for debt retirement is $34,397.48. Earnings in the following year are based on the total being invested at the beginning of the year. Observe that the accumulated amount equals $100,000 at the end of the fifth year.

Various factors such as fluctuations in the rate of interest earned, fluctuations in the amount of revenue from taxation caused by differences between estimated and actual uncollectible taxes receivable, and gains or losses on sale of investments, frequently cause a variance between required earnings and actual earnings. If the reserve for debt retirement is to be maintained at the amount required by the accumulation schedule, revenue must be adjusted for earnings and/or for taxes that differ from the required amounts. If actual annual earnings on the investments do not equal the required earnings or if revenue from taxes does not equal required taxation, the amount of the annual tax levy or the amount of revenue required from other sources must be adjusted upward. If the actual earnings on investments exceed the required earnings, or if revenue from taxes exceeds the required taxation, the amount of the annual tax levy can be adjusted downward. The objective of the debt service fund is to accumulate sufficient but not excessive resources to be used to retire the bonds outstanding.

Budgetary accounts for each bond issue facilitate periodic comparisons of actual earnings with required earnings and periodic comparisons of actual revenue from taxation or other sources with required taxation or revenue from other sources. These comparisons throughout the outstanding life of each bond issue serve as effective debt management techniques for adjusting the amount of taxes required to retire each bond issue.

TYPICAL TRANSACTIONS IN A DEBT SERVICE FUND

In the following illustration it is assumed that the general fund or the central tax collection agency fund records all taxes receivable, makes allowances for estimated uncollectible taxes receivable, and collects taxes as an agent for the debt service fund. The general fund or the central tax collection agency fund transfers the amount of taxes collected to the debt service fund. The amount is not revenue of the general fund or the central tax collection agency fund but, instead, is revenue of the debt service fund. The illustration is based on the preceding debt service fund accumulation schedule which was included in the prospectus for the bond issue.

IN THE DEBT SERVICE FUND (First year)

Required taxation	16,379.85	
Reserve for debt retirement		16,379.85
To record debt service fund budget for first year.		

IN THE GENERAL FUND

Taxes receivable	XXX	
Estimated uncollectible taxes receivable		XXX
Revenue from taxes		XXX
Due to debt service fund		16,379.85
To record the tax assessment and levy, a part of which is revenue of the debt service fund.		

IN THE DEBT SERVICE FUND

Due from the general fund	16,379.85	
Revenue from taxes		16,379.85
To record claim from the general fund for debt service fund taxes collected by it.		

If a tax collection agency fund exists to collect property taxes for the debt service fund, the following entries would be made at the time of the tax assessment and levy:

IN THE TAX COLLECTION AGENCY FUND—IF USED

Taxes receivable	XXX	
Estimated uncollectible taxes receivable		XXX
Due to the general fund		XXX
Due to special revenue fund		XXX
Due to debt service fund		16,379.85
To record tax assessment and levy and to distribute liability to each fund.		

IN THE DEBT SERVICE FUND IF TAX AGENCY FUND IS USED

Due from tax collection agency fund	16,379.85	
Revenue from taxes		16,379.85
To record claim for tax levy from the tax collection agency fund.		

After taxes are collected by the general fund, cash is transferred from the general fund to the debt service fund. Assume that $16,379.85 is collected by the general fund and transferred to the debt service fund. This transaction is recorded as follows:

IN THE GENERAL FUND

Due to debt service fund	16,379.85	
Cash		16,379.85
To record transfer of cash from tax collections to the debt service fund.		

IN THE DEBT SERVICE FUND

Cash	16,379.85	
Due from the general fund		16,379.85
To record transfer of cash from the general fund for debt service fund revenue collections.		
Investments	16,379.85	
Cash		16,379.85
To record investment in certificates of deposit.		

At the end of the fiscal period, the following closing entries would be made:

Revenue from taxes	16,379.85	
Required taxation		16,379.85
To close budgetary and actual revenue accounts.		

Consistency in accounting principles and procedures requires that the accounts be closed through the revenue and expenditure summary. However, as no variances existed, no balance would appear in the account.

The balance sheet for the debt service fund at the end of the first year would appear with the following accounts:

Assets:	
Investments	$16,379.85
Fund equity:	
Appropriated:	
Reserve for debt retirement	$16,379.85

IN THE DEBT SERVICE FUND—SECOND YEAR

The entry to record the budget from the accumulation schedule is as follows:

Required taxation	16,379.85	
Required earnings	1,637.98	
Reserve for debt retirement		18,017.73
To record the budget for the debt service fund for the second year.		

When the general fund makes the tax assessment and levy, the following entry is made in the debt service fund:

Due from the general fund	16,379.85	
Revenue from taxation	16,379.85	
To record the claim against the general fund at the time of the tax assessment and levy by the general fund.		

Assuming that the exact amount of taxes was collected by the general fund and was transferred to the debt service fund, the following entry is made in the debt service fund:

Cash	16,379.85	
Due from the general fund		16,379.85
To record collection of taxes from the general fund, as collected throughout the year.		

Assume that cash collected from interest exceeded annual requirements by $100. To record collection of earnings the following entry is made:

Cash	1,737.98	
Revenue from interest earned	1,737.98	
To record collection of interest earned.		

As soon as cash is received, it should be invested. Therefore, the following entry records investment of total cash:

Investments	18,117.73	
Cash		18,117.73
To record investment in certificates of deposit.		

At the end of the fiscal year, the following closing entries are made:

Revenue from taxation	16,379.75	
Revenue from interest earned		1,737.98
Revenue and expenditure summary		18,117.73
To close revenue accounts.		

Revenue and expenditure summary	18,017.73	
Required taxation		16,379.75
Required earnings		1,637.98
To close budgetary revenue accounts.		
Revenue and expenditure summary	100.00	
Debt service fund equity		100.00
To close the revenue and expenditure summary.		

The debt service fund balance sheet at the end of the second year would contain the following accounts:

Assets:	
Investments	$34,497.48
Fund Equity:	
Unappropriated	$ 100.00
Reserve for debt retirement	34,397.48
	34,497.48

Observe that the reserve for debt retirement balance is in agreement with the debt service fund accumulation schedule at the end of each year throughout the outstanding life of the bonds. In this illustration, a favorable variance of $100 exists at the end of the second year. In future years revenue from taxation or revenue from earnings may fall short of the requirements of the debt service fund accumulation schedule or losses may occur when converting investments into cash. In the event that the unappropriated debt service fund equity develops a deficit (a debit balance) attention of the board would be focused on the unfavorable variance and corrective action could be taken by the board of education.

INVESTMENTS OF THE DEBT SERVICE FUND

The bond prospectus usually restricts the debt service fund to certain kinds of investments, investments that are conservative, yet, investments that will provide income for the debt service fund. If investments in bonds are authorized, they may be purchased at a price in excess of face value, i.e., a premium, or they may be purchased at a price less than face value, i.e., a discount. An additional characteristic of investment in bonds is that if purchased between interest payment dates, interest accrued since the authorized date of issue or since the last interest payment date is included in the purchase price. The following illustrations will record the purchase at a premium, the purchase at a discount, and the purchase including accrued interest to date of purchase.

Assume that an investment in bonds of $10,000 made at a premium of $200 plus accrued interest is purchased in the amount of $100. The entry to record the purchase is as follows:

Investments	10,000	
Unamortized premium on investments	200	
Accrued interest receivable	100	
Cash		10,300
To record purchase of bonds at a premium plus accrued interest.		

On the interest payment date, the following entry is made to record collection of interest:

Cash	900	
Revenue from earnings, interest		800
Accrued interest receivable		100
To record collection of interest on investments.		

Assume that an investment of $12,000 is made on which a discount of $240 is applicable. The following entry records the investment:

Investments	12,000	
Unamortized discount on investment		240
Cash		11,760
To record investments purchased at a discount.		

AMORTIZATION OF PREMIUM OR DISCOUNT ON INVESTMENTS

When long-term investments are made at a discount or a premium, the discount or premium affects the amount of interest that will be earned on the investment. A prorata share of the discount or premium should be amortized or written off each year over the remaining outstanding life of the investment. Amortization of the premium or discount changes the rate of interest from the nominal rate, i.e., the rate stated on the face of the investment, to an effective rate of interest. Amortization of a discount increases the nominal rate of interest to the effective rate of interest while amortization of a premium decreases the nominal rate of interest to the effective rate of interest. In either case, interest earned each interest period on each investment will be the same amount, leaving the investment recorded at its maturity value, i.e., its face value.

To illustrate amortization of a discount, assume that the $12,000 investment at a discount of $240 is to be held for 4 years. Either at each interest collection date or at the end of the fiscal year, the discount should be amortized. Amortization always affects interest earned on investments and is, as a result, amortized through the revenue from interest account. The following entry records amortization of ¼ of the discount:

Revenue from interest	60	
Unamortized discount on investments		60
To amortize ¼ of the discount on investments.		

To illustrate amortization of a premium, assume that the investment of $10,000 at a $200 premium is to be held for 4 years. The entry to amortize the premium at the end of the first year is as follows:

Unamortized premium on investments	50	
Revenue from interest		50
To amortize ¼ of the premium on investments.		

Over the outstanding life of the investment, the discount or the premium will be written off through the revenue from interest earned account.

THE TRIAL BALANCE OF A DEBT SERVICE FUND

A trial balance of the debt service fund accounts may appear as follows:

NEW HOPE SCHOOL SYSTEM
Debt Service Fund
Trial Balance
December 31, 19-

Cash	$ 3,740	
Investments	22,000	
Unamortized premium on investment	180	
Unamortized discount on investment		$ 210
Required taxation	24,600	
Required earnings	1,200	
Revenue from taxation		24,600
Revenue from interest		1,110
Reserve for debt retirement		25,650
Debt service fund equity		150
Totals	$51,720	$51,720

DEBT SERVICE FUND CLOSING ENTRIES

Alternate procedures are available for closing temporary and budgetary accounts of the debt service fund at the end of each fiscal period. The easier method is illustrated as follows:

Revenue from taxation	24,600	
Revenue from interest	1,110	
Revenue and expenditure summary	90	
Required taxation		24,600
Required earnings		1,200
To close the actual and budgetary account into the revenue and expenditure account.		

In this case, the difference between the actual earnings and the required earnings must be transferred to the debt service fund equity account through the revenue and expenditure summary at the end of the fiscal period by the following entry:

Debt service fund equity	90	
Revenue and expenditure summary		90
To close the revenue and expenditure summary account.		

The use of budgetary revenue accounts with actual revenue accounts on the same page puts important information together and easily indicates the variance between each source of budgeted revenue and actual revenue for the debt service fund.

In the case of debt service funds, revenue comparisons between required and actual revenue during the accounting period or studies of the income productivity of investments tend to provide a basis whereby the board of education can make investments of cash in the debt service funds for the best advantage of the school system. The greater the earnings on investments in debt service funds, the lesser the amount of taxes that will have to be assessed, levied, and collected in order to retire the long-term debt.

When the closing entries have been posted to the accounts of the debt service fund, the remaining accounts have the following balances from which a balance sheet can be prepared:

NEW HOPE SCHOOL SYSTEM
Debt Service Fund
Trial Balance
December 31, 19-

Cash	$ 3,740	
Investments	22,000	
Unamortized premium on investments	180	
Unamortized discount on investments		$ 210
Reserve for debt retirement		25,650
Debt service fund equity		60
Totals	$25,920	$25,920

Having closed the accounts at the end of the accounting period, the debt service fund is ready to begin transactions of the next year. Ultimately, sufficient assets will be accumulated in the debt service fund so that by their conversion into cash at the maturity date of the bond issue, the bonds can be retired.

BOND RETIREMENT FROM THE DEBT SERVICE FUND

Assume that at the maturity of a bond issue for which a debt service fund had been used, the amount of cash on hand is $100,000 and the reserve for debt retirement is $100,000. An entry is made to record matured bonds which have been carried in the general long-term debt group of accounts. The entries to record retirement are as follows in the debt service fund:

Reserve for debt retirement	100,000	
Appropriation, debt service, principal of debt		100,000
To record the appropriation of the board of education to retire the principal of matured bonds.		
Expenditures, debt service, principal of debt	100,000	
Matured bonds payable		100,000
To record the expenditure for retirement of principal of debt.		

The entry to record the transfer of cash to a fiscal agent for payment of the maturity value of the matured bonds is as follows:

Cash with fiscal agent for debt retirement	100,000	
Cash		100,000
To record transfer of cash to fiscal agent for payment of maturity value of long-term bonds.		

When the report of the fiscal agent is received along with each cancelled, paid, and/or redeemed bond, the following entry is made:

Matured bonds payable	100,000	
Cash with fiscal agent for debt retirement		100,000
To record payment of matured bonds payable by the fiscal agent and receipt of cancelled bonds.		

At this point, all investments of the debt service fund will have been converted into cash, and the reserve for debt retirement account will have been used for the purpose for which the fund was created. The assets accumulated in the debt service fund will have been used to retire the bonds at maturity. Therefore, all accounts in the debt service fund will be closed and, for that bond issue, no need exists for the debt service fund to continue in operation.

The advantages that result from the use of accounting principles applicable to debt service funds for each long-term debt issue justify analyzing, recording, and reporting through the use of a separate group of self-balancing accounts. This management accounting structure can focus the attention of the board and its administrative officers on the financial requirements of each debt issue throughout its outstanding life and, thus, provide the type of information necessary for the school system to get the maximum amount from every tax dollar for public purposes.

ADDITIONAL ACCOUNTS OF A DEBT SERVICE FUND

In addition to the accounts illustrated, other accounts may be used such as:

taxes receivable, allowance for estimated uncollectible taxes, taxes receivable delinquent, allowance for estimated uncollectible taxes delinquent, interest and penalties receivable, allowance for estimated uncollectible interest and penalties, tax liens, and others if the debt service fund assesses, levies and collects its own taxes receivable.

RETIREMENT OF SERIAL BONDS FROM A DEBT SERVICE FUND

Previous illustrations have been restricted to long-term bonds, the principal of which matures at one time. Different circumstances surround serial bonds, a portion of which matures during different years.

Assume that $100,000 of 12% serial bonds have been issued, $20,000 maturing at the end of each year for five years and that the general fund serves as the tax collection agency for the debt service fund. To pay both principal and interest, the following debt service requirements are established prior to issue:

Year	Bonds Outstanding Beginning of Year	Interest Requirement	Principal Requirement	Bonds Outstanding End of Year
1	$100,000	$12,000	$20,000	$80,000
2	80,000	9,600	20,000	60,000
3	60,000	7,200	20,000	40,000
4	40,000	4,800	20,000	20,000
5	20,000	2,400	20,000	—0—

In the General Fund:

Cash	32,000	
Due to debt service fund		32,000
To record collection of tax which is due to debt service fund.		

In the Debt Service Fund:

Required taxation	32,000	
Appropriation, principal, bonds		20,000
Appropriation, interest, bonds		12,000
To record budget for debt service.		
Due from general fund	32,000	
Revenue from taxes		32,000
To record assessment and levy of tax by the general fund.		
Cash	32,000	
Due from general fund		32,000
To record collection from general fund.		
Expenditures, interest, bonds	12,000	
Cash		12,000
To record payment of interest on bonds.		

Expenditures, principal, bonds	20,000	
Matured bonds payable		20,000
To record expenditure to assume liability for matured bonds payable.		
Matured bonds payable	20,000	
Cash		20,000
To record retirement of serial bonds from debt service fund.		

Closing Entries

Revenue from taxes	32,000	
Appropriation, principal, bonds	20,000	
Appropriation, interest, bonds	12,000	
Required taxation		32,000
Expenditures, interest, bonds		12,000
Expenditures, principal, bonds		20,000
To close budgetary and actual revenue and expenditure accounts.		

The following illustration assumes that a tax is authorized to be collected directly by the debt service fund in an amount necessary to retire principal and pay interest. In this case, all accounting for debt service, including assessing, levying and collection of taxes, is accomplished in the debt service fund as follows:

In the Debt Service Fund:

Required taxation	32,000	
Appropriation, principal, bonds		20,000
Appropriation, interest, bonds		12,000
To record adoption of budget.		
Taxes receivable	34,000	
Revenue from taxes		32,000
Estimated uncollectible taxes receivable		2,000
To record assessment and levy of taxes applicable to debt service.		
Cash	18,400	
Taxes receivable		18,400
To record collection of taxes receivable.		
Cash	14,200	
Taxes receivable		14,200
To record collection of taxes receivable.		
Expenditures, interest, bonds	12,000	
Cash		12,000
To record payment of interest on bonds.		

Expenditures, principal, bonds	20,000	
Matured bonds payable		20,000
To record expenditure and assume liability for matured bonds payable.		
Matured bonds payable	20,000	
Cash		20,000
To record retirement of matured bonds.		

A trial balance of the debt service fund at this time would appear as follows:

NEW HOPE SCHOOL SYSTEM
Debt Service Fund
Trial Balance
Date -----

Cash	$ 600	
Taxes receivable	1,400	
Estimated uncollectible taxes receivable		$ 2,000
Required taxation	32,000	
Revenue from taxes		32,000
Appropriation, principal, bonds		20,000
Appropriation, interest, bonds		12,000
Expenditures, principal, bonds	20,000	
Expenditures, interest, bonds	12,000	
Totals	$66,000	$66,000

ADJUSTING ENTRIES

Obviously, an allowance has been made for estimated uncollectible taxes receivable in the amount of $2,000. Is this amount needed? You will observe that taxes receivable amount to $1,400 and there is no need at the present time to have an allowance for more than $400. An error was made when the estimated uncollectible taxes receivable was recorded. This error understated the current year's revenue because the error was detected during the year in which it was made. Therefore, the following adjusting entry is made:

Estimated uncollectible taxes receivable	600	
Revenue from taxes		600
To reduce the estimated uncollectible taxes receivable to $400.		

If an error is discovered, however, in the balance sheet at the beginning of the period, resulting from transactions of prior fiscal periods, the error is not corrected through current revenue and expenditure accounts but is, instead, corrected through the debt service fund equity account. Corrections of errors of prior years should not affect the current year's revenue and expenditure accounts.

CLOSING ENTRIES

Revenue from taxes	32,600	
Appropriation, principal, bonds	20,000	
Appropriation, interest, bonds	12,000	
Required taxation		32,000
Expenditures, principal, bonds		20,000
Expenditures, interest, bonds		12,000
Revenue and expenditure summary		600
To close revenue and expenditure accounts, both actual and budgeted.		
Revenue and expenditure summary	600	
Debt service fund equity		600
To close revenue and expenditure summary account.		

The balance sheet of the debt service fund would appear as follows at this point:

NEW HOPE SCHOOL SYSTEM
Debt Service Fund
Balance Sheet
Date -----

Assets:			
Cash		$600	
Taxes receivable	$1,400		
Less estimated uncollectible	1,400	—	$600
Fund balance			
Debt service fund equity			$600

DEBT SERVICE FUND FINANCIAL STATEMENTS

Financial statements which are useful to the board of education, administrative officers, investors , financial analysts and taxpayers for each debt service fund are: the balance sheet, the statement comparing required revenue with revenue, the statement comparing expenditures and encumbrances with appropriations, the statement of changes in fund equity, and the statement of changes in financial position. For preparation of the CAFR, reference is made to Chapter 9 and the section entitled "Accompanying Financial Statements."

In debt service funds, large amounts of financial resources are provided by taxation and interest earned while large amounts of financial resources are applied to pay interest on bonds outstanding and to retire principal of debt. When the statement of changes in financial position is prepared on the total financial resources concept, it will disclose effectively the financial resources provided by tax revenue and interest earned and financial resources applied for debt service, both interest cost and retirement of bond principal.

The problem of combining financial statements for all debt service funds into one set of financial statements to be included in the comprehensive annual financial report is the same as it is for special revenue funds and capital projects funds. Examples of the reporting format for debt service funds follow.

Example 1: The two following financial statements taken from Valley View Public Schools Community Unit District No. 365-U, Romeoville and Bolingbrook, Illinois, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 1980, illustrate the way by which financial statements of each separate debt service fund can be combined. The first is the combining balance sheet for all debt service funds.

VALLEY VIEW PUBLIC SCHOOLS
COMMUNITY UNIT DISTRICT NO. 365-U

Combining Balance Sheet
All Debt Service Funds
June 30, 1980

	Combined Total	Bond And Interest Fund	Rent Fund
ASSETS			
Cash	$ 158,532	$ 158,532	$ —
Investments	667,717	667,717	—
Receivables, net of allowance for uncollectible amounts			
Property taxes	5,195,934	5,026,064	169,870
Corporate personal property replacement tax	217,252	217,252	—
Interest	39,592	39,592	—
Due from other funds	80,204	41,165	39,039
Total assets	$ 6,359,231	$ 6,150,322	$ 208,909
LIABILITIES AND DISTRICT EQUITY			
Liabilities			
Interest payable	$ 8,306	$ 8,306	$ —
Deferred property tax revenue	2,738,158	2,639,158	99,000
	$ 2,746,464	$ 2,647,464	$ 99,000
District Equity, fund balance, designated for debt service	$ 3,612,767	$ 3,502,858	$ 109,909
	$ 6,359,231	$ 6,150,322	$ 208,909

The Notes to Financial Statements are an integral part of this statement.

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The second is the combining statement of fund operations which presents revenue, expenditures and the changes in fund balance for all debt service funds.

VALLEY VIEW PUBLIC SCHOOLS
COMMUNITY UNIT DISTRICT NO. 365-U

Combining Statement of Fund Operations
All Debt Service Funds
Year Ended June 30, 1980

	Combined Total	Bond And Interest Fund	Rent Fund
Revenue			
Local property taxes	$ 2,697,172	$ 2,600,105	$ 97,067
Unrestricted state aid, corporate personal property replacement tax	884,968	884,968	—
Earnings on Investments	45,501	45,501	—
	$ 3,627,641	$ 3,530,574	$ 97,067
Expenditures, debt service			
Principal payments on bonds	$ 1,920,000	$ 1,920,000	$ —
Interest payments on bonds	1,107,990	1,107,990	—
Payment on lease/purchase contract	102,000	—	102,000
Service charges	3,491	3,491	—
Interest on tax anticipation warrants and notes	48,313	48,313	—
	$ 3,181,794	$ 3,079,794	$ 102,000
Revenue over (under) expenditures	$ 445,847	$ 450,780	$ (4,933)
Other Financing (Uses), operating transfers (to) other funds	(45,501)	(45,501)	—
Revenue and other financing (uses) over (under) expenditures	$ 400,346	$ 405,279	$ (4,933)
Fund Balance, Beginning	3,212,421	3,097,579	114,842
Fund Balance, Ending	$ 3,612,767	$ 3,502,858	$ 109,909

The Notes to Financial Statements are an integral part of this statement.

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Example 2: The following two financial statements are taken from the Carrollton Farmers Branch Independent School District, Carrollton, Texas, Comprehensive Annual Financial Report, Fiscal Year Ended August 31, 1981. The first illustrates how one combined balance sheet can be presented for all debt service funds in the comprehensive annual financial report.

Schedule D-1

CARROLLTON-FARMERS BRANCH
INDEPENDENT SCHOOL DISTRICT
Debt Service Fund
Balance Sheet
August 31, 1981

Assets			
Cash In Bank		$ 64,863	
Cash With Assessor-Collector In Escrow		4,962	
Cash With Paying Agent (Advances For September, 1981 Requirements)		363,594	$433,419
Temporary Investment—Certificate of Deposit			275,000
Receivables:			
Property Taxes—Delinquent:			
1980 Tax Roll	$ 17,264		
1979 Tax Roll	8,117		
1978 Tax Roll	10,070		
1977 Tax Roll	31,672		
1976 Tax Roll And Prior	69,018	136,141	
Property Taxes—Penalty And Interest		25,325	
		161,466	
Allowance For Estimated Uncollectible Taxes		(58,988)	102,478
Accrued Interest On Investments			2,145
Total Assets			$813,042
Liabilities And Fund Balance			
Liabilities:			
Accounts Payable			$ 4,962
Fund Balance:			
Reserved For Debt Service			808,080
Total Liabilities And Fund Balance			$813,042

See Accompanying Accountants' Report.

The second illustrates how one combined statement of revenues, expenditures and changes in fund balances can be presented in the comprehensive annual financial report for all debt service funds.

Schedule D-2

CARROLLTON-FARMERS BRANCH
INDEPENDENT SCHOOL DISTRICT
Debt Service Fund

Statement of Revenues, Expenditures and Changes
in Fund Balances—Budget (GAAP Basis) and Actual
Year Ended August 31, 1981

	Budget	Actual	Variance-Favorable (Unfavorable)
Revenues:			
Property Taxes, Penalties And Interest	$ 3,591,988	3,606,866	14,878
Interest On Investments	116,000	115,894	(106)
Interest On Sale of Bonds	20,321	20,321	—
Total Revenues	3,728,309	3,743,081	14,772
Expenditures:			
Retirement Of Serial Bonds	1,599,000	1,599,000	—
Interest On Serial Bonds	2,035,784	2,035,784	—
Paying Agents' Fees	28,500	28,382	118
Total Expenditures	3,663,284	3,663,166	118
Excess Of Revenues Over Expenditures	65,025	79,915	14,890
Fund Balance, September 1, 1980	728,165	728,165	—
Fund Balance, August 31, 1981	$ 793,190	808,080	14,890

See Accompanying Accountants' Report.

Example 3: The following is an example of the combined statement of changes in financial position for all debt service funds.

NAME OF SCHOOL SYSTEM
Debt Service Funds
Statement of Changes in Financial Position
For the year ended ....

Exhibit B

Resources provided by:		
Decreases in assets:		
Taxes receivable, 19-0	$ xx	
Due from other funds	xx	$ xx
Increase in fund balance:		
Fund balance		xx
Revenue:		
Ad valorem -- property taxes	$ xx	
Interest and penalties on taxes	xx	
Interest earnings	xx	
Contributions from other funds	xx	xx
Total resources provided		$ xx
Resources applied to:		
Increasing assets:		
Certificates of deposit	$ xx	
Cash with fiscal agents	xx	
Taxes receivable, 19-1	xx	$ xx
Expenditures:		
Principal – bonds	$ xx	
Interest on bonds	xx	
Paying agents fees	xx	xx
Total resources applied		$ xx

Chapter 13
Debt Service Funds

QUESTIONS

13-1. Why are debt service funds used?

13-2. Bonds may be retired through the use of either the general fund or a debt service fund. What determines which is to be used?

13-3. Explain the purpose of debt service funds.

13-4. Are budgetary accounts required for use in debt service funds? If so, under what conditions?

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13-5. Distinguish between "term bonds" and "serial bonds."

13-6. What is the primary advantage of using debt service funds for each bond issue?

13-7. Explain briefly how a debt service fund is created and how it works.

13-8. What is the purpose of the "required taxation account" and the "required earnings account" in a debt service fund?

13-9. What is the purpose of budgetary accounts in a debt service fund?

13-10. What is the objective of the debt service fund? How is the objective reached?

13-11. What financial statements are prepared from the accounts of a debt service fund?

CASES AND PROBLEMS

13-1. Fork County School System uses a debt service fund to retire its long-term bonds. The following transactions took place during the period from January 1, 19--, to December 31, 19--.

January 1	The budget for the debt service fund required revenue from taxes of $50,000 and required revenue from earnings of $2,400.
March 15	Taxes collected by the general fund and transferred to the debt service fund amounted to $30,000.
April 1	Purchased 10 year, 10% bonds, face value $30,000, dated January 1, at a premium of $500 with interest payable semi-annually on June 30 and December 31.
June 15	Taxes collected by the general fund and transferred to the debt service fund amounted to $20,000.
July 1	Purchased 9%, bonds having a face value of $20,000 and a life of 20 years as an invest ment at a discount of $600 with interest payable semi-annually on June 30 and December 31.

INSTRUCTIONS:

1. Prepare journal entries to record all transactions that occurred in the debt service fund during the year.
2. Prepare a trial balance of the debt service fund as of December 31, 19--.
3. Prepare closing entries in general journal form.

13-2. The following transactions took place during the year 19-- in the debt service fund of the City of Durby School System:

January 1	The budget showed that required taxation for the current year amounted to $48,000 and required earnings amounted to $2,300.
January 31	$25,000 collected by the general fund was transferred to the debt service fund.
February 1	Purchased $20,000 of 20 year 10% bonds dated October 1 of the preceding year for $21,108, including accrued interest. Interest payable semi-annually on April 1 and October 1.
April 1	Collected remainder of amount due from the general fund.
July 1	Purchased 10 year, 9% bonds of $15,000 for $12,700 cash. Interest is payable semi-annually on June 30 and December 31. Bonds were dated as of July 1 of this year.
September 1	Purchased 20 year, 12% bonds dated May 1, of $10,000 and accrued interest. Interest is payable semi-annually on May 1 and November 1.

INSTRUCTIONS:

1. Make all general journal entries necessary to record transactions which occurred in the debt service fund during the year. Record accrued interest purchased in an asset account.
2. Prepare a trial balance of the debt service fund as of December 31, 19--.
3. Make all necessary closing entries.

13-3. The Newton School System maintains a debt service fund which has accounts with balances as indicated below:

Reserve for debt retirement	$30,000
Debt service fund equity	300
Cash	5,675
Unamortized premium on investments	75
Interest earned	2,965
Investments	26,000
Required taxation	28,700
Unamortized discount on investments	85
Required earnings	1,600
Revenue from taxes	28,700

INSTRUCTIONS:

1. Prepare a trial balance for the debt service fund as of December 31, 19--, from the account balances indicated above.
2. Make the necessary general journal entries to close the appropriate accounts as of December 31, 19--.

13-4. On July 31, 19X2*, the Westland School System issued $1,000,000 par value of serial bonds, paying 10% per year, to be called in blocks of $100,000 every two years, beginning July 31, 19X4. A special tax levy was authorized to pay off the debt. On July 31, 19X9, the fund had the following account balances:

Cash	$ 20,000
Taxes receivable	32,000
Estimated uncollectible taxes	16,000
Investments, certificates of deposit—at cost	74,000
Bond interest payable	4,000
Debt service fund equity	6,000
Reserve for debt retirement	100,000

The following transactions occurred on July 31, 19X9:

1. Taxes receivable of $15,000 were collected.
2. Certificates of deposit in the amount of $69,000 were converted into cash.
3. Interest payable of $4,000 was paid.
4. Following the directive of the board of education, the balance in the reserve for debt retirement was transferred to the debt service fund equity account, and an appropriation for debt service, principal of debt, was made in the amount of $100,000.
5. An expenditure, debt service, principal of debt, was recorded for $100,000 and the debt service fund assumed the liability for matured bonds payable.
6. A check for $100,000 was issued to the fiscal agent to retire bonds presented for payment.

INSTRUCTIONS:

1. Prepare a schedule beginning with year 19X3 showing the bond principal outstanding during each year and the amount of interest required for each year.
2. Record and post the transactions of July 31, 19X9.
3. Record and post closing entries for year ended July 31, 19X9.
4. Record and post the budget for the following year.

*19X2 and subsequent years are identified for sequence purposes as 19X3, 19X4, etc.

Section 2

Part 2

THE ACCOUNT GROUPS

THE GENERAL FIXED ASSETS ACCOUNT GROUP

THE GENERAL LONG-TERM DEBT ACCOUNT GROUP

14

GENERAL FIXED ASSETS ACCOUNT GROUP

The general fixed assets group of accounts is a separate, self-balancing account group identified by a title to distinguish it from a fund. Other than accounts recording fixed assets and the funds through which they were obtained, this account group has no current assets, current liabilities, fund equity, revenue or expenditure accounts as other funds have.

General fixed assets are those assets of a physical nature which have a long period of usefulness to and are owned by the school system. They include buildings, land, furniture, and equipment. Capital outlay expenditure accounts are used in either the general fund, special revenue funds, or capital projects funds when general fixed assets are acquired by the school system. Being expenditure accounts of the general fund and special revenue funds, they are closed at the end of each fiscal period. Capital outlay expenditure accounts in capital projects funds are closed when the capital projects fund has completed the purpose for which it was created, i.e., when the fixed assets are acquired. Therefore, in none of these three funds are accounts established to record these general fixed assets and transactions affecting them while they are owned by the school system. Problems of financial management of general fixed assets do not cease upon acquisition of them. Therefore, the general fixed assets group of accounts is created to account for these assets throughout the time they are owned by the school district.

NATURE OF THE GENERAL FIXED ASSETS ACCOUNT GROUP

Fixed assets, frequently referred to as plant and equipment, are costly. Constant expenditures for repairs, maintenance, upkeep, and remodeling are necessary to preserve the useful life of the asset. School systems dispose of general fixed assets in most cases only after continued use of the asset has been condemned. Safeguarding fixed assets is as important to the taxpayer and the school system as safeguarding cash. Therefore, a separate group of self-balancing accounts should exist to account for general fixed assets of the school system.

This group of accounts records general fixed assets used by all funds of the school district other than internal services funds, enterprise funds, and in some cases, trust funds. Internal services funds and enterprise funds are referred to as proprietary funds which operate on a basis quite different from the governmental type fund or the formal budgetary type fund. In internal services funds and enterprise funds, fixed assets are not used for school-wide, general purposes but instead, they are special fixed assets acquired to provide specific supporting services for the school district.

In proprietary funds and some trust funds, costs of providing services include depreciation expense, the charge for wear and tear and the decline in value of the fixed asset resulting from the use of the fixed assets of the fund. Recovery of depreciation expense as a part of the cost of rendering the service avoids depletion of the fund's equity.

Generally, fixed assets are not required or used in trust funds, agency funds, debt service funds, or the general long-term debt account group.

The account group can be used to prevent, detect and recognize losses of costly fixed assets. Subsidiary general fixed asset ledger accounts are an important part of an internal control system that can safeguard general fixed assets from loss. Identifying specific general fixed assets, the accounts are helpful in securing adequate but not excessive insurance coverage. Through proper insurance programs, when losses do occur, this group of accounts serves as the basis for filing claims against the insurance company. Through this group of accounts, responsibility and accountability can be placed in an officer of the school system for proper preservation, conservation, and safeguarding of each costly asset throughout its useful life.

The general fixed assets account group serves the practical purpose of keeping taxpayers, administrators, and board members aware of the fact that all assets acquired by the school system are being accounted for until they are retired or disposed of by proper authority. This account group also serves as a basis for assuring the school system that cash or other assets from the sale or disposition of such assets are channeled back into the school system.

OPERATION OF THE GENERAL FIXED ASSETS ACCOUNT GROUP

A physical inventory of the school system's general fixed assets should be taken periodically, at least once each year, to determine that the assets that should be on hand are, in fact, on hand and in a serviceable condition. This may be accomplished by continuing the use of previously prepared inventory worksheets, assuring that additions, deletions and transfers occurring during the year are recorded.

Auditors, whether from the audit division of the state or federal government, or from outside independent firms of accountants, will be verifying the existence of fixed assets of the school system. If they are not on hand at the time of the audit, the auditor may have to extend the scope of the engagement, investigate reasons why they are not on hand , and report such losses to the board of education. The scope of the auditor's engagement should be sufficiently broad to permit a thorough examination of the general fixed assets account group and to recommend, if needed, improvements in the school district's system of internal control to avoid controllable losses. The board of education can establish policies and recommend administrative action to safeguard against unnecessary losses of general fixed assets and it can file claims against insurance companies if losses have occurred.

A school system's general fixed assets include such things as land, buildings, equipment, furniture, fixtures and all other items of a similar nature. These assets are recorded in the general fixed assets account group at cost unless they have been received by gift. If acquired by gift, the fixed asset accounts should reflect the appraised value at the date of receipt of the gift.

Referring to general fixed assets, ASBO's 1977 statement entitled "Financial Accounting Standards and Procedures for School Systems", ASBO states: "An independent appraisal value may be used if the original cost is not available." Recognizing that historical costs may be costly to reconstruct, ASBO recommends that the general fixed assets be brought under control and made a matter of record at the earliest possible date and at a minimum cost. When referring to "original cost", it should be made clear that original cost is not the current replacement cost or actual cash value of general fixed assets at the date of the financial statements. Periodically, for insurance purposes, the school system's general fixed assets should be appraised to determine each asset's "current replacement cost" or "estimated cash value at appraisal date." These appraisal values should be recorded in the subsidiary ledger accounts of the general fixed assets group of accounts parenthetically, thus making it possible to insure each general fixed asset at its cost to be replaced in the event of its loss for any reason.

In earlier years a practice developed where general fixed assets were reported in a group of accounts with general bonded debt. Even though as long ago as 1951 the Governmental Accounting Standards Board recommended that the practice be discontinued because there may be no relationship between the general fixed assets and general bonded debt, the practice may continue to be found.

COORDINATION OF TRANSACTIONS WITH OTHER FUNDS

A definite procedure should be established whereby expenditures from the general fund, special revenue funds, and capital projects funds are coordinated when general fixed assets are acquired by them. When acquired they should be recorded at cost in the general fixed asset group of accounts.

In the general fund and special revenue funds, expenditures are classified under the heading of capital outlay. At the end of the year, a reconciliation should be made between expenditures from these funds for capital outlay and the additions to the general fixed assets group of accounts during the year. Too frequently in the past, administrative officers have considered the acquisition of the asset to be the final step in proper administration and have not coordinated expenditures for assets with permanent records of those assets acquired. When such a condition exists, the school system is subjecting itself to costly property losses.

Although an internal services fund carries its own fixed assets as a part of the fund's accounting structure, it is possible that an internal services fund, such as a central maintenance fund, may be created to construct general fixed assets or to make extensive repairs, replacements, and improvements to general fixed assets. In such a case, expenditures for these services would be recorded in the general fund or special revenue fund buying the service and reconciliations would be made to assure that increases in general fixed assets are properly recorded in the general fixed assets account group.

Authority to dispose of general fixed assets should be granted only by the board of education or to a group designated by the board. The resolution of the board authorizing disposition of general fixed assets should also specify the fund or funds which are to receive cash or other assets upon disposition of the assets. By requiring approval of the board to be recorded in the minutes of its meetings, accounting procedures can be established to assure the school system, taxpayers, and the board that proceeds from the disposition of assets are brought under proper administrative control of the school system. Therefore, all accounts which show that assets were disposed of during the fiscal period should be examined and proceeds, if any, should be traced to the accounts of the fund or funds which were authorized to receive the proceeds.

LEASE AGREEMENTS—CAPITAL LEASES

Effective for fiscal years beginning after June 30, 1983, GASB's Statement 5, Accounting and Financial Reporting Principles for Lease Agreements of State and Local Governments, capital leases, i.e., those leases where title to the property transfers to the school district at the termination of the lease, are treated as installment purchases. If the asset is to be purchased through the general fund or a special revenue fund, the purchased asset is recorded in the General Fixed Assets Account Group at the inception of the lease agreement at the present value of the total future lease payments and a related credit is recorded to indicate the source from which the asset is to be acquired. At the same time, the corresponding long-term debt is recorded in the General Long-Term Debt Account Group along with a debit to indicate the amount to be provided in the future. As installment payments become due, the long-term debt account and the account showing the amount to be provided in the future are reduced. The current obligation is recorded in the fund which is required to make the payment by debiting debt service expenditure accounts for the principal and interest on lease agreements and crediting a current liability account.

Long-term operating leases, i.e., those which do not transfer title to leased property at the expiration of the lease, are recorded in the General Long-Term Debt Account Group and, in the fund required to make the periodic payments, debt service expenditures accounts are debited when the current liability is recorded.

DEPRECIATION ON GENERAL FIXED ASSETS

This is a point of major difference between accounting for commercial concerns and accounting for a school system. Depreciation is the estimated decline in value of fixed assets or the estimated cost for use of fixed assets due to normal wear and tear. In accounting for a commercial enterprise, recovery of cost, including depreciation, is an important factor in setting a selling price for the firm's product or service. Furthermore, in commercial enterprises, depreciation expense is allowed as a deduction in computing federal income tax.

In school accounting, only internal services funds, enterprise funds, and certain non-expendable trust funds, which operate as self-supporting entities, record depreciation on the fixed assets carried in the accounts of the funds. This is because fixed assets of these funds are fixed assets of a special type required by the fund to provide the goods or services for which it was created. In these funds, a charge for depreciation is made in computing the cost of goods produced or services rendered. Billings for goods or services recover costs, including depreciation, in order that the fund equity may be retained intact. These conditions do not exist in the case of the general fund, special revenue funds, capital projects funds or general fixed assets group of accounts.

In its March, 1974 publication, "Audits of State and Local Governmental Units," the American Institute of Certified Public Accountants took action to change this concept. As a result, school systems may include depreciation on general fixed assets as a formal part of the accounting structure of the general fixed assets group of accounts. This need arises when a school system enters into contracts to offer goods or services for outside agencies, because depreciation is an indirect cost and it is included in computing overhead rates for contracts. Recovery of costs is, in effect, a way of increasing revenue. Measuring cost of recording depreciation against its effect upon revenue over expenditures, cost-effectiveness, may be a basis for a decision either to record or not record depreciation in general fixed assets.

RECORDING DEPRECIATION IN THE GENERAL FIXED ASSETS ACCOUNT GROUP

If depreciation is to be recorded in the general fixed assets group of accounts, it should be computed for each general fixed asset, other than land, and recorded in both the general ledger and the subsidiary general fixed assets ledger. By use and the passage of time, tangible fixed assets lose their usefulness or wear out; they are said to depreciate.

The amount by which a fixed asset depreciates each year is, at best, an estimate. Depreciation expense can not be computed with the same degree of accuracy as expenses of other types. Based on original cost of the asset, many methods of computing depreciation have been developed in industry and are acceptable for computing federal and state income tax. Among methods are: straight-line method; sum-of-the-years-digits method; declining-balance method; and units of production method. Any or all of these methods may be most appropriate in internal services funds, enterprise funds and some trust funds; however, the straight-line method is easiest to compute and may be most useful in the general fixed assets account group.

The straight-line method of computing depreciation produces an equal annual expense over the estimated useful life of the asset. To illustrate this method, assume that the cost of a fixed asset was $12,000, its estimated scrap value or residual value at the time it ceases to be useful to the school district is estimated to be $2,400, and its estimated useful life is 10 years. Annual depreciation is computed as follows:

Cost ($12,000) minus scrap value ($2,400) divided by estimated useful life (10 years) = $960 per year.

The following entry records annual depreciation on general fixed assets:

Depreciation expense	XXX	
Accumulated depreciation on:		
Machinery		XXX
Equipment		XXX
Buildings		XXX

To record estimated annual depreciation on general fixed assets.

The amount of accumulated depreciation for each fixed asset is posted to the individual fixed asset's subsidiary ledger account. The book value of each asset, i.e., the excess of cost over accumulated depreciation, individually, may be computed at any time. Being able to determine book value is important in cases of sale, exchange, or determining losses due to theft, accident, fire, vandalism, or acts of God. Because it is an estimated amount, usually depreciation is computed on a monthly basis, i.e., if purchased between the first day of the month and the fifteenth day, a full month's depreciation is recorded. If purchased in the last half of the month, no depreciation is recorded. In the case of sale, exchange or loss, if the event occurs during the first half of the month, no depreciation is recorded. If the event occurs during the last half of the month, a full month's depreciation is recorded.

At the end of each fiscal period, depreciation expense can be closed by the following two entries:

Revenue and expenditure summary	XXX	
Depreciation expense:		
Machinery		XXX
Equipment		XXX
Buildings		XXX
To close depreciation expense accounts.		

Equity in general fixed assets:		
From the general fund	XXX	
From special revenue funds	XXX	
From capital projects funds	XXX	
Revenue and expenditure summary		XXX
To close the revenue and expenditure summary.		

ACCUMULATED DEPRECIATION IN THE BALANCE SHEET, GENERAL FIXED ASSETS ACCOUNT GROUP

The assets section of the balance sheet of the general fixed assets group of accounts, including accumulated depreciation appears as follows:

Assets:		
Land		$ 86,000
Buildings	$2,456,000	
Less accumulated depreciation on buildings	840,000	1,616,000
Machinery	$1,659,000	
Less accumulated depreciation on machinery	432,000	1,227,000
Equipment	$ 864,000	
Less accumulated depreciation on equipment	342,000	522,000
Total general fixed assets		$3,451,000

TYPICAL TRANSACTIONS IN THE GENERAL FIXED ASSETS ACCOUNT GROUP

General fixed assets may be acquired from the following sources:

1. From the collection of taxes and other resources in the general fund. General fixed assets acquired through the general fund are accounted for

in the general fixed assets group of accounts.

2. From the issuance of bonds and expenditures of capital projects funds. General fixed assets acquired through capital projects funds are accounted for through the general fixed assets group of accounts.
3. From revenue of special revenue funds. General fixed assets acquired through special revenue funds are accounted for through the general fixed assets group of accounts.
4. From manufacture of general fixed assets in internal services funds. Although general fixed assets manufactured in internal services funds for the school system's use are acquired through expenditures from the general fund or other fund, they are accounted for through the general fixed assets group of accounts.
5. From revenue from local sources in the form of property itself.
6. From revenue from state sources in the form of property itself or through state appropriations which may be received originally through the general fund, special revenue fund or a capital projects fund.
7. From revenue from federal sources in the form of the property itself or through federal appropriations which may be received directly from the federal government or through the state government. Revenue from federal sources may be recorded originally in the general fund, a special revenue fund or a capital projects fund.
8. From gifts, donations, or bequests in the form of the property itself or in the form of cash which may be received originally through a trust, agency, or general fund.

When grants are received in the form of cash, the cash must be accounted for through the general fund, a special revenue fund, a trust fund, or an agency fund as no cash transactions are recorded in the general fixed assets group of accounts.

EQUITY IN GENERAL FIXED ASSETS

To record fixed assets in the general fixed assets group of accounts, the widely used account title credited is "Investment in General Fixed Assets from ...." This title creates confusion because the word "investment" normally means that it is an asset - and asset accounts carry debit balances. A more descriptive term that eliminates this confusion and that is consistent with terminology used in all other funds of school systems is "Equity in General Fixed Assets from ...." Equity accounts in both governmental accounting and in commercial accounting carry credit balances.

In order that entries recording expenditures for general fixed assets from the general fund, a special revenue fund or a capital projects fund may be coordinated with the entries which record these fixed assets in the general fixed assets group of accounts, the following entries are presented:

To record the expenditures in a capital projects fund:

Expenditures: improvements other than buildings	98,000	
Accounts payable		98,000
To record expenditures for improvements other than buildings.		

The entry to record the assets acquired through a capital projects fund is recorded in the general fixed assets group of accounts by the following:

Improvements other than buildings	98,000	
Equity in general fixed assets: From capital projects funds		98,000
To record assets acquired through a capital projects fund.		

The following entry is made in the general fund when an expenditure is made for a capital outlay:

Expenditures: Machinery	25,000	
Accounts payable		25,000
To record expenditure for machinery.		

The entry to record assets acquired through expenditures from the general fund is recorded in the general fixed assets group of accounts as follows:

Machinery	25,000	
Equity in general fixed assets: From the general fund		25,000
To record acquisition of assets through the general fund.		

The following entry is made in a special revenue fund when general fixed assets are acquired:

Expenditures: capital outlay, land	10,000	
Accounts payable		10,000
To record expenditure for land in a special revenue fund.		

The entry to record the assets acquired through the special revenue fund on the books of the general fixed assets group of accounts is as follows:

Machinery	10,000	
Equity in general fixed assets: From special revenue funds		10,000
To record assets acquired through special revenue funds.		

The entry to record acquisition of fixed assets from local government grants may be recorded directly in the general fixed assets group of accounts at fair market value on date received as follows:

Land	8,000	
Equity in general fixed assets: From local government grant		8,000
To record receipt of land from local government grant.		

The entry to record acquisition of fixed assets from state government grants may be recorded directly in the general fixed assets accounts at fair market value on date received as follows:

Buildings	100,000	
Equity in general fixed assets: From state government grants		100,000
To record acquisition of building from state government grant.		

The entry to record acquisition of fixed assets from federal government grants appears in the journal of the general fixed assets group of accounts at fair market value on date received as follows:

Buildings	50,000	
Equity in general fixed assets: From federal government grants		50,000
To record acquisition of assets from federal government grant.		

The entry to record acquisition of fixed assets from gifts appears in the journal of the general fixed assets group of accounts at fair market value on date received as follows:

Machinery	5,000	
Equity in general fixed assets: From gifts		5,000
To record acquisition of general fixed assets by gift.		

When the journal entries are posted to the ledger of the general fixed assets account group, a trial balance can be prepared and a statement of general fixed assets appears as follows:

NEW HOPE SCHOOL SYSTEM
Statement of General Fixed Assets
December 31, 19__

General fixed assets:		
Land	$ 8,000	
Buildings	150,000	
Improvements other than buildings	98,000	
Machinery and equipment	40,000	
Total general fixed assets		$296,000
Equity in general fixed assets:		
From Capital Projects Funds	$ 98,000	
From the General Fund	25,000	
From Special Revenue Fund	10,000	
From local government grants	8,000	
From state government grants	100,000	
From federal government grants	50,000	
From gifts	5,000	
Total equity in general fixed assets		$296,000

FIXED ASSET DISPOSAL

General fixed assets of a school system should be disposed of only upon authority granted by the board of education or its appointed representative or representatives and that authority should be recorded in the minutes of the meeting of the board. As a part of the board's resolution authorizing disposal, a provision should specify which fund is to receive proceeds from the sale and which fund is to be used to pay the cost of disposal. Other than acts of God, theft, and vandalism, general fixed assets may be disposed of by sale, exchange, replacement, or retirement.

Disposal of fixed assets by sale. When a fixed asset is disposed of by sale, an entry is required in both the general fund and in the general fixed assets group of accounts. Assume that machinery which cost $5,000 with accumulated depreciation of $3,150, acquired originally by a capital projects fund and which is carried in the general fixed assets is sold for $1,000 and that the governing board directed that proceeds from the sale be deposited in the general fund.

The entries required are as follow:

In the general fixed assets group of accounts:

Equity in general fixed assets:		
From capital projects funds	1,850	
Accumulated depreciation on machinery	3,150	
Machinery		5,000
To record sale of machinery.		

In the General Fund:

Cash	1,000	
Revenue from sale of general fixed assets		1,000
To record proceeds from sale of general fixed asset.		

Disposal of fixed assets by replacement. The disposal of a fixed asset by replacement is more complicated than an outright sale of the asset. The entry to eliminate the fixed asset account from the general fixed assets group of accounts is required. Costs incurred for the removal of fixed assets are usually paid by the general fund and are considered part of the cost of installing the replacement. A series of entries may be required in the general fund. A second entry will be required in the general fixed assets group of accounts to record the total cost of the replacement. The following entries will be made if machinery which costs $15,000 was originally acquired by the general fund and is replaced by the general fund with machinery costing $20,000.

In the general fixed assets group of accounts:

Equity in general fixed assets: From the general fund	15,000	
Machinery		15,000
To record removal of general fixed assets.		
Machinery	20,000	
Equity in general fixed assets: From the general fund		20,000
To record acquisition of fixed assets from current revenue of the general fund.		

In the General Fund:

Expenditures: capital outlay, machinery	300	
Cash		300
To record expenditure for dismantling machinery and its removal and replacement.		
Expenditures: capital outlay, machinery	19,000	
Cash		19,000
To record list price of $25,000 of new machinery less trade-in allowance of $6,000 for old machinery.		
Expenditures: capital outlay, machinery	700	
Cash		700
To record expenditures for cost of installing new machinery.		

Disposal of fixed assets by retirement. Disposal of fixed assets by retirement implies that the assets have served their useful purpose to the school system and that, for some reason, they are not being exchanged or sold. Auditors require that some evidence of disposal be available for examination to give assurance that the asset was not sold. This evidence is frequently referred to as a cremation certificate when the property is burned. Upon disposal of general fixed assets, entries may be required in both the general fixed assets group of accounts and in the general fund. The entry in the general fund is required if some costs are incurred by the general fund in dismantling machinery being retired. The entries required are as follows:

In the general fixed assets group of accounts:

Equity in general fixed assets:		
From special revenue funds	10,000	
Machinery		10,000
To record retirement of machinery originally acquired by a special revenue fund.		

In General fund:

Expenditures: capital outlay, machinery	500	
Cash		500
To record cost of dismantling fixed assets upon retirement.		

In the case of retirement of general fixed assets, even though the asset account is closed, some effort should be made to assure the board that the asset has no value; otherwise, it should be sold. A loss could occur when assets are retired and are subsequently sold if records of retired assets are not maintained. In the event an asset is retired and sold for scrap value, the following entry is made in the general journal of the general fund in addition to the entry which recorded the cost of dismantlement:

Cash	800	
Expenditures: capital outlay, machinery		500
Revenue from sale of general fixed assets		300
To record realization of scrap value and reimbursement of the expenditure for dismantling machinery, the remainder being recorded as revenue from sale of fixed assets.		

ANNUAL REPORTS OF THE GENERAL FIXED ASSETS ACCOUNT GROUP

In addition to the statement of general fixed assets, two schedules should be prepared to accompany it. One schedule would show the location of assets and the other would show the changes that occurred in the fixed assets during the fiscal year. These two schedules show in detail what is shown in the statement of general fixed assets in total. Illustrations of these schedules follow:

NEW HOPE SCHOOL SYSTEM
Schedule Showing Location of General Fixed Assets
(Date)

LOCATION	TOTAL	LAND	BUILDINGS	IMPVOVEMENTS OTHER THAN BUILDINGS	MACHINERY AND EQUIPMENT
Central High School	$113,000	$3,000	$ 75,000	$20,000	$15,000
Jones Elementary School	91,500	1,500	40,000	40,000	10,000
Davies Elementary School	91,500	3,500	35,000	38,000	15,000
Total	$296,000	$8,000	$150,000	$98,000	$40,000

NEW HOPE SCHOOL SYSTEM
Schedule of Changes in General Fixed Assets
For the year ended December 31, 19....

	TOTAL	LAND	BUILDINGS	IMPROVEMENTS OTHER THAN BUILDINGS	MACHINERY AND EQUIPMENT
Balance, January 1	—	—	—	—	—
Additions during year from:					
Capital Projects Funds	$ 98,000			$98,000	
General Fund	25,000				$25,000
Special Revenue Fund	10,000				10,000
Local government grant	8,000	$8,000			
State government grant	100,000		$100,000		
Federal government grant	50,000		50,000		
Gifts	5,000				5,000
Total	$296,000	$8,000	$150,000	$98,000	$40,000
Deductions during year:					
From destruction	—	—	—	—	—
From sale	—	—	—	—	—
From replacement	—	—	—	—	—
From retirement	—	—	—	—	—
Total					
Balance December 31, 19....	$296,000	$8,000	$150,000	$98,000	$40,000

SUBSIDIARY GENERAL FIXED ASSET LEDGER ACCOUNTS

Specific identification of general fixed assets of a school system provides the best type of management accounting control for the board of education and it safeguards the interests of the taxpayer to the most practical extent. To provide for specific identification, however, information is required about each asset which is not customarily required when keeping subsidiary ledger accounts for other controlling accounts.

Many different classifications of general fixed assets can be used for a school system; however, the following may be used as a basis for initiating a subsidiary ledger classification:

- Land
    - Land, grounds, and site
    - Improvements to grounds
- Buildings
    - Buildings
    - Improvements to buildings
- Equipment
    - Office furniture and equipment
    - Classroom furniture and equipment
    - Laboratory furniture and equipment
    - Machinery
    - Vehicles
    - Engineers' and janitors' equipment

This classification of accounts provides a basis for three inventory records which will contain essential information about each asset that can be classified under the heading of either land, buildings, or equipment.

Land. The land accounts of a school system should include all items of cost such as: contract price for sites, additions to sites, and related costs such as taxes and other liens assumed, title search costs, legal fees, appraisals, condemnation, deeds, surveying, filling, grading, draining, and other costs preparatory to use. If land is acquired by gift, it should be recorded at its appraised value at the date of the gift plus costs of acquiring ownership and perfecting title. Under the heading of improvements to grounds, costs of improving the site preparatory to original use are properly included. These costs might include such things as seeding the lawn, setting out trees and shrubbery, sidewalks, drives, fences, flagpole, and landscape service charges. For each parcel of land owned by the school system, a ledger account should be established containing the information illustrated by the following:

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NEW HOPE SCHOOL SYSTEM
Subsidiary Ledger
Land

General Description ____________________

Location ____________________

Size ____________________

Proposed Use ____________________

Present Use ____________________

Legal Information:

Legal Description ____________________
____
____
____

Plat Book Page Number __________ Property Number __________
Type of Deed __________ Date of Deed __________
Deed Recorded __________ Volume ______ Date ______
Copy of Deed Filed in ____________________

Accounting Information:
Date Purchased __________ Amount __________
Voucher Number __________ Posting Reference __________
Additional Costs:
Nature of Additional Costs __________ Voucher Number __________
____
Posting Reference __________ Amount __________
If acquired by way other than purchase, explain __________
____
Valuation Basis __________ Amount __________

HOW ACQUIRED	AMOUNT	DISPOSITION	
General Fund	______	How Disposed of	______
Special Revenue Fund	______	Date of Disposition	______
Capital Projects Fund	______	Proceeds	______
Gifts, Bequests	______	Proceeds Recorded in	______

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Buildings. Buildings may be purchased or constructed. When purchased, the cost includes the contract price, the cost of altering and remodeling for purposes of the school system, unpaid taxes assumed plus accrued interest if assumed by the school system, the cost of bond elections, and legal fees incident thereto. If the building is constructed, the cost includes advertisement for bids, payments on contracts for construction, built-in appliances, and all expenditures for bond elections, legal fees, architectural fees, and engineering fees. Each building should be recorded by a ledger account in the subsidiary ledger containing information similar to that illustrated by the following:

NEW HOPE SCHOOL DISTRICT
Buildings-Subsidiary Ledger Account
Accomulated Depreciation, Building-Subsidiary Ledger Account

	Subsidiary Ledger	General Ledger
Account Number		
Account Number		

Description ______
Proposed Use ______
Estimated Useful Life ______
Additions Authorized by Resolution No. ______
Resolution No. ______
Resolution No. ______
Disposition Authorized by Resolution No. ______
How Acquired Construction Work Order No. ______
Contract Number ______
Date completed ______
Purchase Purchase Order No. ______
Gift Date Received ______
Fund Source General Fund ______
Special Revenue Fund ______
Capital Projects Fund ______
How disposed of ______
Cost to dismantle ______

Location ______
Present Use
Acquired: Board Resolution Number ______ **Date** ______
Date of Resolution ______ **Date added:** ______
Date of Resolution ______ **Date added:** ______
Date of Resolution ______ **Date added:** ______
Date of Resolution ______ **Date added:** ______
Cost of Construction ______
Cost ______
Posting Reference: ______
Cost: ______ **Date Purchased:** ______
Appraisal Value on Date Received ______
Enterprise Fund ______
Internal Service Fund ______
Trust Fund ______
Proceeds from disposition ______

Date			Explanation	P.	Asset			P.	Accumulated Depreciation			Book
Mo.	Day	Year		R.	Debit	Credit	Balance	R.	Debt	Credit	Balance	Value

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Equipment. A school system most frequently acquires machinery and equipment by purchase. However, in some cases, machinery and equipment are constructed in an internal services fund or an enterprise fund. Costs include the purchase price, freight, drayage, or other transportation costs, installation and engineering costs. Permanent appliances for installation in a building, department, or other addition are capital outlay expenditures and should be carried in the general fixed assets group of accounts. Each machine or piece of equipment capitalized should be shown in the subsidiary ledger containing information similar to that illustrated by the following:

NEW HOPE SCHOOL DISTRICT
Equipment—Subsidiary Ledger Account
Accumulated Depreciation, Equipment—Subsidiary Ledger Account

	Subsidiary Ledger	General Ledger
Account Number	________	________
Account Number	________	________

Description ________________
Location ________________
Identification
Inventory Number ________________
Manufacturer's Number ________________
Serial Number ________________

How Acquired:	General Fund	$ ________
	Special Revenue Fund	$ ________
	Capital Projects Fund	$ ________
	Enterprise Fund	$ ________
	Internal Services Fund	$ ________
	Trust Fund	$ ________

Classification ________________
Manufacturer ________________

Cost ________	Voucher Number ________	Date ________
Cost ________	Voucher Number ________	Date ________
Freight ________	Voucher Number ________	Date ________
Installation ________	Voucher Number ________	Date ________
Additions ________	Voucher Number ________	Date ________
Additions ________	Voucher Number ________	Date ________

DISPOSITION: How Disposed of ________________
Date of Disposition ________ Proceeds $ ________
Authority to dispose recorded in ________________
Cost of Disposition: $ ________________
Proceeds recorded in what fund? ________________

Date			Explanation	P.R.	Asset			P.R.	Accumulated Depreciation			Book Value
Mo.	Day	Year			Debit	Credit	Balance		Debit	Credit	Balance	

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HOW TO ESTABLISH THE GENERAL FIXED ASSETS ACCOUNT GROUP

A general fixed assets account group can be effectively established in a quick, efficient, and complete manner through the following procedures.

1. Responsibility for accounting for general fixed assets has to be placed and authority necessary to establish and maintain adequate accounting standards has to be granted. Procedures established must be integrated with general accounting practices and procedures of the school system.
2. Asset nomenclature and classification must be developed for land, buildings, and equipment.
3. A statement setting forth the objectives of the board should be prepared and distributed to the head of each administrative unit of the school system. Administrative control over one asset by two or more organizational units should be eliminated and responsibility for that asset should be placed under one administrative control. The statement should set forth the preliminary asset classification and nomenclature for information of all concerned.
4. A request should be issued to each administrative unit head to take a physical inventory of general fixed assets within the organizational unit on or before a certain date. The inventory should be reported in terms of the preliminary classification and nomenclature. For assets found for which no nomenclature or classification has been suggested, the administrative officer should be encouraged to describe the asset briefly as a part of the inventory report. For quick and economical preparation, the administrative officer may request selected employees to take the inventory within their jurisdiction. No one should be in a position better to describe or determine nomenclature of equipment than the user. If this procedure is adopted, the date requested to complete the inventory should be established well in advance of the date of the request.
5. Because much of the information about such things as the date of acquisition and purchase price is not available for assets acquired during prior years, instructions should provide for freedom to exercise judgment in estimating an asset's original cost, date of purchase, and remaining useful life. When the assets to be included in this group of accounts are determined, a valuation should be placed on them by using either of the following suggested bases:
   A. Cost, by invoice or other documents bearing on the original cost of the asset.
   B. Appraisals at the date of inventory, indicating whether stated at estimated cost. Professional appraisers can provide estimated historical cost and dates, if necessary, plus current replacement cost or actual cash value for insurance purposes.
6. When values are established for those assets to be included in this group of accounts, ledger cards can be prepared for subsidiary accounts. These,

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then, can be totaled for controlling account entry.

7. Transactions involving general fixed assets should be coordinated—subsequent to the date of creation of this group of accounts —with the fund making the expenditure at the date of acquisition.
8. In order that assets can be brought under proper administrative control by the use of individual identification numbers, a numbering system should be developed indicating location of the asset as well as its major classification.
9. An inventory team should move from one organizational unit to another during the year with the objective of verifying existence of the inventory while, if possible, placing a permanent identification number on each asset to be accounted for through the general fixed assets group of accounts. The number placed on the asset should correspond to the number contained in the subsidiary ledger.
10. Close coordination is required between the fund acquiring and equipping a new plant, building, room or office and the general fixed assets group of accounts. A system through which property can be transferred from one organization unit to another must be established to work efficiently and effectively.
11. Responsibility for safekeeping, maintenance, and repair should be assigned to the administrative officer in charge of the organizational unit to which the asset is charged.
12. All purchases of equipment, transfers, sales or other disposition of fixed assets should be centralized in the board of education and responsibility placed for providing documents necessary to authorize the transaction.
13. A physical inventory should be taken at least once a year. If an asset is recorded and is found to be missing, proper inquiry should be made to determine why it is missing. Administrative action should be initiated immediately to minimize losses and to file a claim for indemnification in the event the loss is covered by insurance.
14. The physical inventory and the subsidiary ledger accounts should be brought into agreement once each year. This also requires reconciliation of the subsidiary ledger with the controlling accounts in the general ledger of the general fixed assets group of accounts.
15. Procedures related to disposal of general fixed assets should be established, and authority for sale, exchange, or retirement should be granted only in writing.
16. The annual report of general fixed assets should be used in determining the adequacy of insurance coverage on general fixed assets.
17. Assets in possession of the school system under a lease agreement should not be included in the inventory. Assets owned by the United States Government may also be in possession of the school system. In these cases it is the responsibility of the school system to keep appropriate records to distinguish between the kinds of property ownership.

FINANCIAL REPORTING FORMAT, GENERAL FIXED ASSETS ACCOUNT GROUP

Two financial reports are required to disclose general fixed assets fully. One is the statement of general fixed assets. In effect, it serves the general fixed assets account group the same way that a balance sheet serves funds. This account group is not a fund because it has no asset accounts other than general fixed assets, it has no liability accounts, revenue or expenditure accounts. Thus, it is referred to as an account group. Because it has no revenue or expenditure accounts, there is no statement of revenue and/or expenditures, but there is a statement of changes in general fixed assets. This statement shows what general fixed assets were at the beginning of the fiscal period, what additions were made, what deletions were made, and what the general fixed assets are at the end of the fiscal period.

Reference is made to chapter 9 in which GASB's Statement 1 indicates what financial statements are required for the Comprehensive Annual Financial Report. Some illustrations that follow illustrate the General Fixed Assets Account Group reports and have earned ASBO's Certificate of Excellence in Financial Reporting.

An illustration of a statement of changes in general fixed assets, combining both the beginning and ending balances of general fixed assets as well as the changes in the equity section of the general fixed assets account group follows:

NAME OF SCHOOL SYSTEM
GENERAL FIXED ASSETS
GROUP OF ACCOUNTS
Date ....

	Beginning Balance	Additions	Deductions	Ending Balance
ASSETS:				
Fixed Assets				
Land	$	$	$	$
Land improvements and additions				
Buildings				
Improvements other than buildings				
Classroom furniture and equipment				
Laboratory equipment				
Audio-visual aids				
Machinery and equipment				
Vehicles				
Office equipment and furniture				
Books				
Developed microfilm				
Construction work in progress				
	$	$	$	$
Equity in General Fixed Assets				
General Fund	$			$
Special Revenue Funds				
Capital Projects Funds				
Local Grants				
Private gifts				
Intermediate grants				
State grants				
Federal grants				
	$	$	$	$

An example of the year-end reporting format for general fixed assets is taken from the comprehensive annual financial report of Columbia Public School District, Columbia, Missouri, for fiscal year ended June 30, 1981. The first statement is the statement of general fixed assets as follows:

COLUMBIA PUBLIC SCHOOL DISTRICT
Statement of General Fixed Assets
June 30, 1981

GENERAL FIXED ASSETS:	
Land and site improvements	$ 1,314,900
Buildings and improvements	24,877,538
Furniture and equipment	4,353,006
Total	$30,545,444
INVESTMENT IN GENERAL FIXED ASSETS:	
General obligation bonds	$26,708,000
Federal and state building aid	700,000
General Fund revenue	3,137,444
Total	$30,545,444

The second statement from Columbia Public School District is the statement of changes in general fixed assets as follows:

COLUMBIA PUBLIC SCHOOL DISTRICT
Statement of Changes in General Fixed Assets
For the Year Ended June 30, 1981

	Balance July 1, 1980	Additions	Balance June 30, 1981
GENERAL FIXED ASSETS:			
Land and site improvements	$ 1,314,900	$ —	$ 1,314,900
Buildings and improvements	23,049,084	1,828,454	24,877,538
Furniture and equipment	2,589,349	1,763,657	4,353,006
Total	$26,953,333	$ 3,592,111	$30,545,444
INVESTMENT IN GENERAL FIXED ASSETS:			
General obligation bonds	$24,958,000	$ 1,750,000	$26,708,000
Federal and state building aid	700,000	—	700,000
General fund revenue	1,295,333	1,842,111	3,137,444
Total	$26,953,333	$ 3,592,111	$30,545,444

It is important that the statement of changes in general fixed assets reconciles the beginning and ending balances of general fixed assets. It shows what was on hand at the beginning and what happened between the beginning and end of the fiscal period. Observe that the statement of general fixed assets is not a comparative statement for the two dates, June 30, 1980, and June 30, 1981, but the balances of general fixed assets as of July 1, 1980, are presented in the first columns of the statement of changes in general fixed assets while balances as of June 30, 1981, are presented in the third column.

The following illustration is taken from the comprehensive annual financial report of the Conroe Independent School District for the fiscal year ended August 31, 1981, Conroe, Texas. It is the entire section of the report, Exhibit H, presented for the General Fixed Asset Account Group. In addition to the statement of general fixed assets and the statement of changes in general fixed assets-by source, additional schedules present a summary of general fixed assets by functions and activities and its supporting, more detailed schedule of changes by function and activities. An additional schedule presents fixed asset cost allocation by location.

GENERAL FIXED ASSET ACCOUNT GROUP

Exhibits H

The General Fixed Asset Account Group reflects the District's investment in assets other than those related to specific proprietary fund types (Extramural Athletic and Food Service Funds). The account group provides a vehicle for management control and accountability. Purchased assets are recorded in the account group at cost; donated assets are recorded at estimated fair value at the time received. General fixed assets are not subject to depreciation.

CONROE INDEPENDENT SCHOOL DISTRICT

Exhibit H-1

Statement of General Fixed Assets
General Fixed Assets Account Group
August 31, 1981

ASSETS	
Land	$ 5,024,517
Buildings and Improvements	67,360,648
Equipment and Other	10,817,081
Total Assets	$83,202,246
FUND EQUITY	
Investment In General Fixed Assets	
Investment In Property From All Sources Other Than Federal Prior to August 31, 1978	$49,016,959
Investment In Property Acquired After August 31, 1978	
From General Fund	2,054,788
From Special Revenue Fund	149,254
From Capital Project Fund	30,762,001
From Donations	1,219,244
Total Fund Equity	$83,202,246

CONROE INDEPENDENT SCHOOL DISTRICT

Exhibit H-2

Statement of Changes in General Fixed Assets—By Sources
General Fixed Asset Account Group
For the Year Ended August 31, 1981

	Function			
	Land	Buildings	Equipment and Other	Total
General Fixed Assets September 1, 1980	$ 4,352,508	$55,890,718	$ 7,664,446	$67,907,672
Add:				
Expenditures From:				
General Fund	$ —	$ —	$ 911,399	$ 911,399
Special Projects Fund	—	—	87,827	87,827
Capital Projects Fund	672,009	11,469,930	2,312,831	14,454,770
Total Additions	$ 672,009	$11,469,930	$ 3,312,057	$15,453,996
Deduct:				
Sale and Disposal of Fixed Assets	$ —	$ —	$ (159,422)	$ (159,422)
Total Deductions	$ —	$ —	$ (159,422)	$ (159,422)
General Fixed Assets August 31, 1981	$ 5,024,517	$67,360,648	$10,817,081	$83,202,246

CONROE INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

Summary Schedule of General Fixed Assets—By Functions and Activities
General Fixed Asset Account Group
August 31, 1981

	Function			
Activity	Land	Buildings	Equipment and Other	Total
Senior High Schools	$ 548,901	$17,422,470	$ 2,569,946	$20,541,317
Junior High Schools	1,168,738	21,791,041	1,168,060	24,127,839
Intermediate Schools	915,107	9,235,613	941,581	11,092,301
Elementary Schools	1,507,491	16,194,939	1,822,418	19,524,848
Administration and Services	884,280	2,716,585	4,315,076	7,915,941
Total General Fixed Assets	$ 5,024,517	$67,360,648	$10,817,081	$83,202,246

CONROE INDEPENDENT SCHOOL DISTRICT

Exhibit H-4

Schedule of Changes in General Fixed Assets—By Function and Activities
General Fixed Asset Account Group
August 31, 1981

Function/Activity	General Fixed Assets 9-1-80	Additions	Deductions	General Fixed Assets 8-31-81
Senior High Schools:				
Land	$ 841,349	$ —	$ (292,488)*	$ 548,901
Buildings	21,254,627	138,013	(3,970,170)*	17,422,470
Equipment and Other	2,294,408	290,653	(15,115)*	2,569,946
Total Senior High Schools	$24,390,384	$ 428,666	$(4,277,733)*	$20,541,317
Junior High Schools:				
Land	$ 256,088	$ 912,650	$ —*	$ 1,168,738
Buildings	9,739,460	12,051,581	—	21,791,041
Equipment and Other	713,202	455,354	(496)	1,168,060
Total Junior High Schools	$10,708,750	$13,419,585	$ (496)	$24,127,839
Intermediate Schools:				
Land	$ 915,107	$ —	$ —	$ 915,107
Buildings	6,390,653	2,844,960	—	9,235,613
Equipment and Other	659,338	283,903	(1,660)	941,581
Total Intermediate Schools	$ 7,965,098	$ 3,128,863	$ (1,660)	$11,092,301
Elementary Schools:				
Land	$ 1,506,310	$ 1,181	$ —	$ 1,507,491
Buildings	15,852,543	342,396	—	16,194,939
Equipment and Other	1,648,235	176,046	(1,863)	1,822,418
Total Elementary Schools	$19,007,088	$ 519,623	$ (1,863)	$19,524,848
Administration and Services:				
Land	$ 833,654	$ 50,626	$ —	$ 884,280
Buildings	2,653,435	63,150	—	2,716,585
Equipment and Other	2,349,263	2,121,711	(155,898)	4,315,076
Total Administration and Services	$ 5,836,352	$ 2,235,487	$ (155,898)	$ 7,915,941
Totals	$67,907,672	$19,732,224	$(4,437,650)	$83,202,246

*Oak Ridge (under construction and classified as high school) designated as junior high for 80-81.

CONROE INDEPENDENT SCHOOL DISTRICT

Exhibit H-5
Page 1 of 2

Schedule of Fixed Asset Cost Allocation—By Location
General Fixed Asset Account Group
August 31, 1981

	Function			
Location	Land	Building	Equipment and Other	Total
Senior High Schools				
Conroe	$ 211,785	$ 7,401,184	$ 1,624,209	$ 9,237,178
McCullough	337,116	10,021,286	945,737	11,304,139
Total High Schools	$ 548,901	$17,422,470	$ 2,569,946	$20,541,317
Junior High Schools				
Knox	$ 122,388	$ 5,714,687	$ 319,785	$ 6,156,860
Oak Ridge	908,234	11,558,928	335,700	12,802,862
Travis	35,096	1,998,131	285,087	2,318,314
Washington	103,020	2,519,295	227,488	2,849,803
Total Junior High Schools	$ 1,168,738	$21,791,041	$ 1,168,060	$24,127,839
Intermediate Schools				
Creighton	$ 103,892	$ 2,598,047	$ 114,763	$ 2,816,702
Crockett	76,020	970,822	188,912	1,235,754
Houser	171,773	2,444,328	111,124	2,727,225
Reaves	29,510	1,613,558	225,951	1,869,019
Wilkerson	533,912	1,608,858	300,831	2,443,601
Total Intermediate Schools	$ 915,107	$ 9,235,613	$ 941,581	$11,092,301
Elementary Schools				
Anderson	$ 909	$ 847,841	$ 157,464	$ 1,006,214
Armstrong	17,801	903,834	141,119	1,062,754
Austin	10,963	887,903	123,563	1,022,429
Ford	81,832	1,876,205	111,454	2,069,491
Glen Loch	297,390	2,383,958	112,161	2,793,509
Hailey	405,970	1,689,209	135,842	2,231,021
Sam Houston	24,380	516,783	146,744	687,907
Lamar	42,724	839,306	212,516	1,094,546
Milam	9,718	685,908	127,771	823,397
Oak Ridge	389,892	1,497,518	252,805	2,140,215
Rice	207,784	1,635,552	109,898	1,953,234
Runyan	8,500	771,974	116,865	897,339
San Jacinto	9,628	1,658,948	74,216	1,742,792
Total Elementary Schools	$ 1,507,491	$16,194,939	$ 1,822,418	$19,524,848

CONROE INDEPENDENT SCHOOL DISTRICT

Exhibit H-5
Page 2 of 2

Schedule of Fixed Asset Cost Allocation—By Location
General Fixed Asset Account Group
August 31, 1981

	Function			
Location	Land	Building	Equipment and Other	Total
Administration and Services	$ 884,280	$ 2,716,585	$ 4,315,076	$ 7,915,941
Total General Fixed Assets	$ 5,024,517	$67,360,648	$10,817,081	$83,202,246

Chapter 14
General Fixed Assets Account Group

QUESTIONS

14-1. When should a physical inventory of general fixed assets be taken and what are its purposes?

14-2. What are general fixed assets and what is included?

14-3. What is the purpose of the general fixed assets group of accounts?

14-4. Name five sources from which a school system may receive general fixed assets.

14-5. Why is computation and recording depreciation important to a commercial enterprise?

14-6. Do school systems compute and record depreciation of assets? If so, under what circumstances?

14-7. What entry would be made in the general fixed assets group of accounts for machinery and equipment acquired by a school system through a special revenue fund?

14-8. Prepare a statement of general fixed assets in proper form for the School System of the Village of Sawyer from the following data: land, $10,000; buildings, $250,000; capital projects fund, $125,000; gifts, $12,000; machinery and equipment, $70,000; special revenue fund, $40,000; local government grants, $30,000; general fund, $50,000; improvements, other than buildings $125,000; state government grants, $120,000; federal government grants, $78,000.

14-9. By what authority are general fixed assets of a school system disposed of and where should that authority be recorded?

14-10. Give the entries in the general fixed assets group of accounts and in the general fund to record the sale of machinery and equipment, originally acquired through the general fund at a cost of $70,000. Proceeds from the sale amount to $500.

14-11. What purpose is served by extending the scope of the auditor's engagement to include examination of the general fixed assets group of accounts?

CASES AND PROBLEMS

14-1. Fixed assets for the year, 19-- were acquired for the City of Pranger School System as follows:

Jan. 21	Machinery was purchased at a cost of $35,000 from the general fund.
Mar. 10	The state government gave 10 acres of land to the school system for the purpose of building a new library. Estimated cost today of the land was $15,000.
May 23	A new heating unit was installed in a high school building at a total cost of $15,000 and was paid from a capital projects fund.
Aug. 5	Improvements to land in the form of landscaping, terracing, etc. were completed at a cost of $1,500. The cost was paid from a capital projects fund.
Nov. 20	The new library was completed at a cost of $1,250,000 and costs were paid from a capital projects fund.

INSTRUCTIONS:

1. Make all general journal entries necessary to record the foregoing transactions on the books of each of the various funds affected, including entries made in the accounts of the general fixed assets group of accounts.
2. Prepare a statement of general fixed assets for the year ended December 31, 19--.

14-2. During the year, 19--, the school system of the City of Portage had transactions affecting the general fixed assets group of accounts as follows:

Feb. 23	The heating system in Norbert School was replaced at a cost of $5,000. The original heating system was acquired through a special revenue fund and was recorded in the general fixed assets group of accounts at a cost of $2,000. Cost of the new heating system was paid from a special revenue fund. Cost of removing the old system was $150 and cost of installation of the new system was $300, both being paid from the general fund.
May 1	A school bus, number 19-21, purchased by the general fund at a cost of $16,000, was sold for $2,500; proceeds from the sale were directed to be deposited in the general fund.

Aug. 5 Classroom desks recorded at a cost of $500 are considered to be useless, and authorization was received to discard them. The desks were originally purchased by the general fund.

Nov. 16 Office equipment acquired originally by a capital projects fund was replaced at a cost of $1,000. The old equipment was recorded at an original cost of $750 and was discarded. The new equipment was purchased from proceeds of a bond issue in a capital projects fund.

INSTRUCTIONS:

1. Record the transactions in general journal form in the general fixed assets group of accounts and in each fund affected by these transactions.

14-3. During the year the following additions were made to the general fixed assets of the Needham School System.

Land	$40,000
Buildings	89,000
Improvements other than buildings	12,000
Machinery and equipment	50,000

Deletions of general fixed assets were as follows:

Buildings listed at $15,000 were removed and sold for $10,000. Machinery and equipment listed for $20,000 sold for $5,000. They were originally acquired from a federal government grant.

In analyzing policies applicable to the Needham School System, it was found that all expenditures from the general fund were applicable to land, that all investments from the state government grants were in buildings, and that all investments from gifts to date were for improvements other than buildings. The remainder of the investment sources were used for machinery and equipment.

At the beginning of the year, the Needham School System had general fixed assets as follows:

Land	$ 230,000
Buildings	8,900,000
Improvements other than buildings	680,000
Machinery and equipment	6,400,000

INSTRUCTIONS:

1. Prepare a schedule of changes in general fixed assets for the year.
2. Prepare a statement of general fixed assets as of December 31, 19--. For solution of this part, assume that investments in general fixed assets, among other sources, included sources as follows at the beginning of the year:

From special revenue fund	$5,200,000
From federal government grant	1,200,000

14-4. Machinery which cost $140,000 was estimated to have a useful life of 10 years was purchased by a Capital Projects Fund on July 1, 19-1. Its estimated scrap value at the end of 10 years was $20,000.

INSTRUCTIONS:

1. Record acquisition of the machinery in the general fixed assets group of accounts on July 1, 19-1.
2. Record depreciation expense on the machinery for the year ended June 30, 19-2.
3. Record the closing entry for the depreciation expense account for the year ended June 30, 19-2.
4. Assuming that this is the only asset, how would the assets section of the statement of general fixed assets appear as of June 30, 19-2?
5. Assume that fire destroyed the building in which the machinery in this problem was used and that the machinery was declared a total loss on September 30, 19-2.
   - A. Record depreciation expense accrued since June 30, 19-2.
   - B. Record the write-off of the machinery in the general fixed assets group of accounts.
   - C. Assume that the Board of Education directed that a claim be filed against X Insurance Co., the insurer, for the loss and that any proceeds from the insurance company would be recorded in the General Fund. Record the claim against the insurance company in the General Fund's general journal. Assume that a check is received from the insurance company in the amount of $100,000 in full settlement of the claim, record appropriate entries in the general journal of the General Fund to settle the claim.

15

GENERAL LONG TERM DEBT ACCOUNT GROUP

The general long-term debt account group provides the accounting basis for financial statements which show the amount of outstanding long-term debt of the school system. Long-term debt is composed of outstanding bonds, long-term notes payable, long-term leases payable, accumulated liabilities for compensated absence, and prior to 1979 and Statement 1 of GASB, the interest remaining to be incurred over the oustanding life of the bonds and notes. The amount of the outstanding debt must be paid from revenue of the school system. It is important that revenue be provided each year in an amount sufficient to retire the bonds and long-term notes payable when they mature and to pay the interest on them as it becomes due. Usually, it is through capital projects funds that long-term bond or long-term notes are issued. Such debts are incurred usually to construct or purchase land, buildings, and equipment for the school system.

The Governmental Accounting Standards Board, the American Institute of Certified Public Accountants, the National Center for Education Statistics, and the Association of School Business Officials of the United States and Canada recommend that a separate self-balancing account group be carried independently of any other fund or account group to account for general longterm debt.

NATURE OF THE GENERAL LONG-TERM DEBT ACCOUNT GROUP

Financial statements prepared from a general long-term debt group of accounts disclose fully the present long-term obligations of the school system, including the accumulated long-term liability for compensated employee absences for future vacation, sick leave and other leave benefits. The proper use of this group of accounts requires that the entire cost of each bond issue be computed and recorded when the bonds are issued and become an obligation of the school system. Annual tax requirements are determined for retirement of bonded debt for each bond issue so long as the school district's bonds remain outstanding. When these requirements are known and presented as a part of the financial reporting procedure of the school system, the board of education is in a position to compare annual tax requirements with the amount authorized by law. Therefore, problems related to financing capital outlay for school systems can be minimized and the board of education can make maximum use of its bonding power.

The general long-term debt group of accounts shows the amount that has been provided in debt service funds for the retirement of long-term bonds as well as the amount that will be needed for their retirement in the future. Long-term debt instruments may be issued in internal services funds and enterprise funds which are obligations to be paid from those funds and as a result, that kind of long-term debt is not recorded in the general long-term debt account group. The amount of long-term bonds issued by these proprietary type funds, i.e., internal services funds and enterprise funds, are reported in footnotes to the financial statements of the General Long-Term Debt Account Group.

All bonds —whether they are serial bonds to be paid from current revenues of the General Fund as they mature, or are longterm bonds to be paid from debt service funds—are recorded in this account group.

LONG-TERM LEASES PAYABLE

In the case of long-term capital leases payable where title to property transfers to the school district at the end of the lease, the long-term liability is recorded in the General LongTerm Debt Account Group. The amount is recorded at the inception of the lease in the amount of the present value of total future lease payments. As lease payments are made, both the amount to be provided account and the long-term leases payable account are reduced. The current liability and its related expenditure are recorded in the fund which is designated to make the payment.

AUTHORIZATION TO ISSUE LONG-TERM BONDS PAYABLE

Bond issues generally require the vote of the taxpayers prior to issuance. The taxpayers need factual information about the present outstanding bonded debt and interest obligations, what the annual tax requirements are to retire present bonded indebtedness and pay interest on them, what effect a proposed bond issue will have on the taxpayer, and how much money can be provided by the proposed bond issue. When the public is informed completely about the present status and proposed changes in bonded debt and interest, it can make sound decisions and the board can more easily secure public cooperation in supporting educational objectives of the school system.

RELATIONSHIP TO OTHER FUNDS

As serial bonds are retired and interest on general long-term bonded debt is usually paid from the general fund or from debt service funds, transactions between the general fund and the general long-term debt group of accounts have to be coordinated. In some cases special revenue funds may be authorized to collect certain revenues for the specific purpose of retiring bonds. In such an event transactions are coordinated between the special revenue fund and the general long-term debt group of accounts.

If long-term bonds are outstanding, a debt service fund usually has to be established to accumulate sufficient resources over the outstanding life of the bonds to retire the long-term bonds upon maturity. Therefore, it is essential that the general long-term debt group of accounts work closely with all debt service funds.

Capital projects funds are usually established to account for the proceeds from the sale of bonds. When general obligation bonds are sold, the transaction is recorded in a capital projects fund and in the general long-term debt account group. In addition to identifying specific capital projects, the title of a capital projects fund may be referred to by a wide variety of names. Regardless of the name, if general obligation, long-term bonds are issued other than by proprietary funds, i.e., internal services funds or enterprise funds, they are recorded in and reported by the general long-term debt account group.

TYPICAL TRANSACTIONS

Business papers which provide adequate, competent evidence that general obligation bonds of the school system have been issued are prepared and submitted to the accounting office. At that time the following entry is made in the general journal of the general long-term debt group of accounts to record the fact that serial bonds and long-term bonds have been issued:

NEW HOPE SCHOOL SYSTEM
General Long-Term Debt Group of Accounts
General Journal

Page 1

Amount to be provided for bond retirement	300,000	
Serial bonds payable		200,000
Long-term bonds payable		100,000
To record sale of bonds.		

LONG-TERM DEBT FOR VESTED INTERESTS FOR COMPENSATED ABSENCES

Following recommendations of FASB's SFAS43, the long-term liability for compensated absences should be inventoried and the accounts should be adjusted. To increase the amount to be provided for long-term compensated absences and to increase the long-term liability for that purpose, the following adjusting entry is made in the general long-term debt group of accounts:

Amount to be provided for long-term compensated absences		XXX
Long-term compensated absences payable		XXX

To adjust the accounts to show the estimate long-term liability for compensated absences.

If the annual inventory shows a reduction in the amount of the long-term liability for compensated absences, the following adjusting entry would be made:

Long-term compensated absences payable	XXX	
Amount to be provided for long-term compensated absences		XXX

To reduce the long-term liability for compensated absences.

RETIREMENT OF SERIAL BONDS

Each year the general fund makes provision in its budget for the amount required to retire serial bonds maturing during the budget period and it may also make provisions to pay interest on general obligation bonds. The general fund's appropriations accounts record authorization to make such expenditures during the fiscal year. Later during the year the general fund will actually disburse money in payment of serial bond principal and interest on bonded indebtedness. When this occurs, business papers which give evidence that the transactions have occurred are prepared and support the following entry in the general journal of the general long-term debt group of accounts:

Serial bonds payable	20,000	
Amount to be provided for bond retirement		20,000

To record General Fund's payment for retirement of matured serial bonds.

Each year the preceding entry is made. Ultimately, the serial bonds payable account is eliminated as a result of annual retirement of the serial bonds. And each year the balance of the account entitled amount to be provided for bond retirement is reduced by the corresponding amount, ultimately eliminating it.

RETIREMENT OF LONG-TERM BONDS

In the case of long-term bonds being retired by use of a debt service fund, it is possible that the general fund or a tax collection agency fund may serve as the agent to collect taxes for the debt service fund. In other cases, the debt service fund may collect its own taxes. In either case, however, taxes must be levied in an amount that sufficient assets can be accumulated over the life of long-term bonds in debt service funds to retire them at maturity.

At the end of the fiscal period the debt service fund's accounts are closed and the amount actually accumulated during the year for retirement of the long-term bonds is reflected in the accounts. To record the amount accumulated each year in the debt service fund, the following entry is made in the accounts of the general long-term debt group of accounts:

Amount provided in Debt Service Fund for bond retirement	29,865	
Amount to be provided for bond retirement		29,865
To record the amount provided by taxes and earnings in the debt service fund for retirement of long-term bonds.		

Because interest is paid annually by the general fund or debt service fund on both serial and long-term bonds, entries which reflect the transactions involving interest on general long-term debt are not, necessarily, made a formal part of this group of accounts. However, accounts which reflect the interest status may be effective management instruments.

Each year as payments are made by the general fund or the tax collection agency fund to the debt service fund or as the debt service fund assesses, levies and collects its own taxes and earns interest on its investments, the account entitled amount provided in debt service fund for bond retirement is increased. At the maturity date of the long-term bonds, the amount provided in the debt service fund for bond retirement should equal the maturity value of the long-term bonds. At the maturity date of the long-term bonds, accounts relative to the bond issue appear in the general long-term debt group of accounts as follows:

NEW HOPE SCHOOL SYSTEM
Statement of General Long-Term Debt
(Date)

Amount provided in debt service fund for bond retirement	$100,000	
Long-term bonds payable		$100,000
Total	$100,000	$100,000

The entry in the debt service fund to retire bonds is to debit the account entitled matured long-term bonds payable and credit the account entitled cash for $100,000. A corresponding entry is required to be made in the general long-term debt group of accounts as follows:

Long-term bonds payable	100,000	
Amount provided in debt service fund for bond retirement		100,000
To record use of debt service fund assets to retire long-term bonds.		

At this point the purpose for which the general long-term debt group of accounts was created has been served. All of the school system's serial bonds and long-term bonds have matured and have been retired. This being the case, there is no longer any need for the group of accounts to continue operating. Notice that all accounts have been closed in this group.

By formal action of the board of education, the general long-term debt group of accounts for these bond issues would be closed by authority granted in minutes of the meeting of the board. All books of original entry, ledgers, copies of financial statements, and business documents affecting the account group should be assembled and stored until examinations by auditors, whether independent outside accountants, or state or federal examiners, have been completed and formal action of the board authorizes disposition in minutes of the board's meeting.

ADVANTAGES OF THE GENERAL LONG-TERM DEBT ACCOUNT GROUP

In the past, many school systems have not used the principles of accounting applicable to general long-term debt account group effectively. Advantages of using this group of accounts may be summarized as follows:

1. The general long-term debt group of accounts records and reports, so long as bonds are outstanding, the amount required to be raised through taxation and other sources of revenue for the purpose of retiring all outstanding bonds at maturity.

2. The amounts required to retire all bonds outstanding can be divided into the obligations that must be paid each year through taxation and the school district's other sources of revenue.

3. Through this accounting procedure, the general fund or debt service fund must include a provision for debt service in its budget in an amount sufficient to pay the obligations for debt retirement and bond interest expense for each fiscal year.

Cases are on record where failure to provide adequately for interest obligations on bonds outstanding have caused deficits to be created in the general fund. An accounting system that requires an annual computation of interest and bond redemption requirements would prevent a deficit due to a mere oversight.

ALL OUTSTANDING BONDS ARE INCLUDED IN THIS ACCOUNT GROUP

In the case of capital projects funds, other than those in proprietary type funds, a separate group of accounts was created to account for the issue and expenditure of proceeds for each bond issue. And in the case of debt service funds, a separate group of accounts was created to account for the accumulation of sufficient financial resources to retire each bond issue at its maturity. However, in the case of the general long-term debt account group, general purpose, general obligation bonds outstanding are recorded in this group. Subsidiary ledger accounts may assist in computing and controlling the amount to be provided for each bond issue.

Two kinds of bonds have been issued. One is a coupon bond and the other is a registered bond. In the case of a coupon bond, a series of coupons are attached to the face of the bond indicating the amount of interest that will be paid on presentation at or after the date indicated on the coupon. Interest on coupon bonds will be paid to the bearer. Starting July 1, 1983, the municipal bond market moved from the "bearer-form, coupon bond" into a now mandatory "registered-form" bond. Ownership of every long-term, tax-exempt bond is required to be a matter of record and the owner registered as such.

In the case of a registered bond, interest is paid only to the holder whose name and address is registered with the school district or its fiscal agent. Subsidiary ledger accounts are designed for the general long-term debt group of accounts to assist in accounting for these two kinds of bonds. The following illustration of a subsidiary ledger account for a coupon bond illustrates how information about coupon bonds can be recorded as a part of the subsidiary ledger for the general long-term debt group of accounts.

NEW HOPE SCHOOL SYSTEM

Subsidiary Ledger
General Long-Term Debt

COUPON BONDS

Description of Bonds ____________ Maturity Dates ____________

Rate of Interest ________ Interest Payment Dates ____________

Date of Bond Issue ________ Purpose of Issue ____________

____

Denomination of Bonds ________ Sale Price ________ Premium ________

Date of Sale ________ Accrued Interest Sold ________ Discount ________

Authorization Information:

Issue authorized by Board in minutes of board meeting dated ____________

Resolution Number ________ Page Number ________ Book Number ________

PRINCIPAL

Date of Maturity	Bond Number	Annual Retirement

INTEREST

Coupon Number	Interest Payment Date	Interest Requirement

The next example illustrates how information about registered bonds can be recorded in the subsidiary ledger of the general long-term debt group of accounts.

NEW HOPE SCHOOL SYSTEM

Subsidiary Ledger
General Long-Term Debt

REGISTERED BONDS

Description of Bonds ____________ Maturity Date ____________

Rate of Interest ____________ Interest Payment Dates ____________

Name and address of interest and principal payee:

____

____

____

Date of Bond Issue ____________ Purpose of Issue ____________

____

Denomination of Bonds ____________ Sale Price ____________ Premium ____________

Date of Sale ____________ Accrued Interest Sold ____________ Discount ____________

Authorization Information:

Issue authorized by Board recorded in minutes of board meeting date ____________

Resolution Number ____________ Page Number ____________ Book Number ____________

PRINCIPAL

Date of Required Contribution to Debt Service	Bond Number	Annual Requirement

INTEREST

Interest Payment Dates	Interest Requirement

INTEREST ON LONG-TERM DEBT

Because of the magnitude of interest that is payable in future years on outstanding, long-term debt, prior to 1968 and GASB's revision of *Governmental Accounting, Auditing, and Financial Reporting,* interest payable in future years was disclosed fully from the time the bonds were issued until they were retired for information of any reader of financial statements of this account group. Many advantages accrue to a school system when it formally recognizes interest as an obligation of the school system at the time the bonds or long-term notes are issued. The practice to disclose these material amounts in this account group follows:

Assume that a bond issue of $1,000,000 is sold bearing interest at a rate of 10% for 10 years. The entry to record the interest liability at the time of creating the debt was:

Amount to be provided for interest	500,000	
Interest payable in future years		500,000
To record the liability for interest on bonds payable at the time of issuing bonds.		

Each year as interest was paid either by the general fund or by a debt service fund, the following entry was made in the general long-term debt group of accounts:

Interest payable in future years	50,000	
Amount to be provided for interest		50,000
To record payment of annual interest by debt service fund.		

Amounts were provided in debt service funds specifically designated for payment of interest. For example, if bonds are sold at a premium, the governing board may direct that the premium be transferred to the debt service fund for interest payments. Assume that bonds were sold at a premium of $1,250 and that the governing board directed that the premium be transferred to the debt service fund for interest payments. The entry in the general long-term debt group of accounts would be recorded as follows:

Amount provided for interest	1,250	
Amount to be provided for interest		1,250
To record amount provided in debt service fund for payment of interest.		

Advantages of recording interest in the general long-term debt group of accounts include a formal reporting throughout the outstanding life of the debt and tend to avoid repeating cases of administrative oversight of budgetary requirements necessary for annual payment of interest. Interest expense is a material cost to the taxpayer and accounting for school systems is capable of disclosing fully what it costs to use borrowed money.

YEAR-END REPORTING FORMAT, GENERAL LONG-TERM DEBT ACCOUNT GROUP

Two financial statements disclose the financial position of the general long-term debt account group and the changes that have occurred during the fiscal period in this account group. One statement is identified as a statement of long-term debt and the other is the statement of changes in long-term debt. Examples of the reporting format for the general long-term debt group of accounts are shown in the following illustrations.

Reference is made to chapter 9 and the section entitled "Accompanying Financial Statements" where the statements prepared for a comprehensive annual financial report were outlined by GASB.

NEW HOPE SCHOOL SYSTEM
Statement of Long-Term Debt and Interest
Date ____________

AMOUNT PROVIDED AND TO BE PROVIDED FOR THE RETIREMENT OF LONG-TERM DEBT AND INTEREST		
Amount provided in Debt Service Funds:		
For retirement of general obligation bonds	$750,000	
For retirement of long-term notes payable	50,000	$ 800,000
Amount To Be Provided in Debt Service Funds:		
For retirement of general obligation bonds	$250,000	
For retirement of long-term notes payable	150,000	
For interest payable in future years	90,000	490,000
		$1,290,000
LONG-TERM DEBT AND INTEREST PAYABLE		
General obligation bonds	$1,000,000	
Long-term notes payable	200,000	
Interest payable in future years	90,000	
		$1,290,000

The following illustration is taken from the comprehensive annual financial report, Columbia Public School District, Columbia, Missouri, for fiscal year ended June 30, 1981:

COLUMBIA PUBLIC SCHOOL DISTRICT
Statement of General Long-Term Debt
June 30, 1981

AMOUNT AVAILABLE AND TO BE PROVIDED FOR THE PAYMENT OF GENERAL LONG-TERM DEBT:	
Amount available in Debt Service Fund	$ 1,084,264
Amount to be provided	16,114,736
Total Available and to be Provided	$17,199,000
GENERAL LONG-TERM DEBT PAYABLE:	
General obligation bonds	
Current	$ 833,000
Long-term	16,366,000
Total General Long-Term Debt Payable	$17,199,000

COLUMBIA PUBLIC SCHOOL DISTRICT
Statement of Changes in General Long-Term Debt
For The Year Ended June 30, 1981

	Balance July 1, 1980	Additions	Balance June 30, 1981
AMOUNT AVAILABLE AND TO BE PROVIDED FOR THE PAYMENT OF GENERAL LONG-TERM DEBT:			
Amount available in Debt Service Fund	$ 852,762	$ 231,502	$ 1,084,264
Amount to be provided	14,759,238	1,355,498	16,114,736
Total Available and to be Provided	$15,612,000	$ 1,587,000	$17,199,000
GENERAL LONG-TERM DEBT PAYABLE:			
General obligation bonds			
Current	$ 764,000	$ 69,000	$ 833,000
Long-term	14,848,000	1,518,000	16,366,000
Total General Long-Term Debt Payable	$15,612,000	$ 1,587,000	$17,199,000

Many people who prepare and use financial statements of school systems believe that this great volume of information can be more meaningfully disclosed by use of a statement comparable to the one above, rather than by footnotes where such a format is not used. If the format is used, this information can be easily understood by readers.

In its schedule of principal and interest requirements on bonds, August 31, 1981, Richardson Independent School District, Richardson, Texas, effectively presents important information about the total financial impact of bonded debt principal payments and interest costs related to bonds in its comprehensive annual financial report for the fiscal year ended August 31, 1981, as follows:

RICHARDSON INDEPENDENT SCHOOL DISTRICT MF-5

Schedule of Principal and Interest Requirements on Bonds
August 31, 1981

Due Fiscal Year Ending 8-31	Principal	Interest	Total
1982	$ 6,109,000	$ 6,102,002	$ 12,211,002
1983	6,572,000	5,556,479	12,128,479
1984	6,998,000	5,196,155	12,194,155
1985	7,343,000	4,824,235	12,167,235
1986	7,678,000	4,451,157	12,129,157
1987	8,061,000	4,062,593	12,123,593
1988	8,464,000	3,651,511	12,115,511
1989	8,864,000	3,217,783	12,081,783
1990	9,102,000	2,763,020	11,865,020
1991	8,745,000	2,348,077	11,093,077
1992	8,885,000	1,923,553	10,808,553
1993	9,122,000	1,472,264	10,594,264
1994	9,177,000	1,018,649	10,195,649
1995	4,665,000	630,125	5,295,125
1996	2,900,000	380,150	3,280,150
1997	2,975,000	213,000	3,188,000
1998	1,125,000	72,000	1,197,000
	$116,785,000	$47,882,753	$164,667,753

For each of its bond issues, Richardson Independent School District also provides most effective debt management information. This type of information should be available in the general ledger of the general long-term debt group of accounts for each bond issue. Only one illustration is presented:

RICHARDSON INDEPENDENT SCHOOL DISTRICT

MF-6
(1 of 50)

Principal and Interest Requirements to Retire
1951 Schoolhouse Bonds
August 31, 1981

Due Fiscal Year Ending 8-31	Bond Numbers	Interest Rate	Interest Due		Principal due May 1	Total Requirements
			November 1	May 1		
1982	143-159	3.25%	$1,755.00	$1,755.00	$ 17,000.00	$ 20,510.00
1983	160-176	3.25	1,478.75	1,478.75	17,000.00	19,957.50
1984	177-194	3.25	1,202.50	1,202.50	18,000.00	20,405.00
1985	195-212	3.25	910.00	910.00	18,000.00	19,820.00
1986	213-231	3.25	617.50	617.50	19,000.00	20,235.00
1987	232-250	3.25	308.75	308.75	19,000.00	19,617.50
Total Requirements			$6,272.50	$6,272.50	$108,000.00	$120,545.00

Chapter 15
General Long-Term Debt Account Group

QUESTIONS

15.1. What information is provided by the general long-term debt group of accounts?

15-2. How is long-term debt and interest paid?

15-3. For what reasons do school systems issue bonds?

15-4. What are three advantages of using a separate group of accounts to record transactions involving general long term debt?

15-5. Why do bond issues generally require the vote of the taxpayer prior to their issue?

15-6. Name the four types of bonds that may be issued by a school system.

15-7. Distinguish between a coupon bond and a registered bond.

15-8. What are the advantages of the general long-term debt group of accounts to a school system?

15-9. What is the relationship of the general long-term debt group of accounts to capital projects funds?

15-10. Assume a school system issued 9%, 20-year bonds having a face value of $1,000,000. What entry would be made in the general long-term debt group of accounts to record the school system's bond liability?

15-11. What information is shown in the general long-term debt group of accounts?

15-12. If long-term bonds are outstanding in the school system, what is the most conservative step to take to assure liquidation of the liability?

15-13. When general bonds of the school system are issued and business papers are prepared and submitted to the accounting office, what accounts are debited and credited in the general journal of the general long term debt group of accounts?

15-14. Are budgetary accounts used in connection with long term obligations of a school system? If so, what accounts and what funds are used?

15-15. Why is it desirable that the general fund or tax collection agency fund serve as the tax collector for a debt service fund in the case of outstanding long-term bonds?

15-16. What entry is made in the general long-term debt group of accounts to record the amount provided by contributions and earnings for the retirement of long term bonds in the debt service fund?

15-17. Under what conditions will the general long-term debt group of accounts be closed?

15-18. What is included in the general long-term debt account group for long-term compensated absences?

15-19. What adjusting entry is needed to increase the long term liability for compensated absences?

CASES AND PROBLEMS

15-1. The Cleveland Country School System has issued 9%, 10 year, bonds in the amount of $1,500,000 and serial bonds in the amount of $750,000 bearing interest at the rate of 9 ½% of which $150,000 will become due at the end of the sixth, seventh, eighth, ninth, and tenth year.

INSTRUCTIONS:

1. Compute the amount of interest payable in future years.
2. Record the liability in the general long-term debt group of accounts.

15-2. Notice was given to the general long-term debt group of accounts that the general fund had paid $93,750 in interest due on $750,000 of 8%, 10-year bonds and on $375,000 of 9% serial bonds. In addition, the general fund deposited $225,000 in a debt service fund for retirement of general bonded debt.

INSTRUCTIONS:

1. Record entries made in the general fund to pay interest and to make annual payment to the debt service fund.
2. Record entries made in the debt service fund to show receipt from the general fund.
3. Record the effect of interest payment and the principal of debt payment to the debt service fund upon the general long-term debt group of accounts.

15-3. At the end of the sixth year, Cleveland County School System retired $150,000 of serial bonds from the debt service fund.

INSTRUCTIONS:

What entry is made on the books of the general long term debt group of accounts to show retirement of these bonds?

15-4. Zebra Township Schools was authorized a bond issue of $500,000 for providing additional school equipment. The authorization provided for issuance of long-term bonds ma turing in ten years with interest at 9% payable semi-annually. The school system was authorized the use of debt service fund accounting to accumulate resources to retire the bonds at maturity from taxes collected by the general fund. At the end of the year, $46,000 has been provided for retirement of debt in the debt service fund.

INSTRUCTIONS:

1. Prepare the necessary general journal entry to record the sale of the bonds in the general long term debt group of accounts.
2. Record the amount provided in the debt service fund as a result of contributions from the general fund and earnings on investments, totaling $46,000.

15-5. Crocket County Schools issued bonds to finance re-equipping certain classrooms. The issue consisted of serial bonds with face value of $50,000. $10,000 is to be retired annually from current revenue. Interest of 10 ½% is payable annually.

INSTRUCTIONS:

1. Prepare all general journal entries necessary to record the issue of the bonds in the general long term debt group of accounts.
2. Prepare the general journal entries necessary to record the retirement of the final installment of bonds in the general long-term debt group of accounts.

Section 2

Part 3

THE PROPRIETARY TYPE FUNDS

ENTERPRISE FUNDS
INTERNAL SERVICES FUNDS

These funds account for the cost of providing important supporting services for the school district within the school district. Charges are made for services rendered or for goods produced. While internal services funds operate on a cost reimbursement basis, usually, enterprise funds often earn a profit. These funds make it possible to prepare financial statements that fully disclose costs of rendering supporting services or providing goods which can be compared with the cost of purchasing comparable goods or services from outside sources and, thus, make it possible for the school district to get the highest quality of education possible within the financial resources that are available. Accounting principles used in proprietary type funds are similar to those used by commercial enterprises.

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ENTERPRISE FUNDS

School systems provide many supporting services for educational programs such as school food services, athletic programs, school newspapers, yearbooks, and vocational education projects such as farms, automotive repair shops, woodworking shops, etc. To recover costs, they make charges based upon consumption, use, attendance, number of students,or on some other basis. Services rendered by enterprise funds can be available to the public as well as to students, faculty and staff of the school district. Each activity is intended to be partially, if not fully, self-supporting.

The need for determining cost of services rendered as a basis for charging or billing makes it desirable for a separate self-balancing group of accounts to be established for these "commercial type" operations. Prices charged have to be sufficient to recover costs if the fund is to be retained intact without being depleted. There are many ways to recover cost. For example, billings for advertising in the school newspaper may be based upon space used. The price to charge for hot lunches can be determined by reference to the total cost of operating the school food service program, including depreciation on fixed assets of the enterprise fund, and the number of meals served during a prior period. In other cases such as athletic events, revenue is determined by the number of tickets sold and the ticket prices. Accounting for enterprise funds, therefore, is similar to accounting for commercial enterprises. Assets are acquired, expenses are incurred, and liabilities are created in the same way they are in any commercial enterprise. In enterprise funds, the cost includes depreciation expense for machinery, equipment and buildings as well as interest on longterm debt of the enterprise fund.

The costs of fixed assets necessary to produce services of an enterprise fund may be so much that they can be obtained only by issuing long-term bonds or long-term notes payable to another fund, governmental agency, or bank. Not only are fixed assets carried but long-term debts are also carried in the accounts of the enterprise fund.

To determine cost of goods sold, an enterprise fund may use either a physical or perpetual inventory method. Inventory accounts, purchases accounts, and other accounts necessary to determine the cost of goods sold may be necessary in an enterprise fund. Furthermore, revenue from operation of an enterprise fund may be pledged to be used to retire the long-term debt. Therefore, accounting for an enterprise fund is different from accounting for formal budgetary funds, account groups, or fiduciary funds used by school systems.

BUDGETARY ACCOUNTS IN ENTERPRISE FUNDS

Budgetary accounts, i.e., estimated revenue, appropriations, encumbrances, reserve for encumbrances, and budgeted fund balance accounts, are not generally used in the operation of enterprise funds. Enterprise funds focus on net income, i. e., income and expense accounts as commercial accounting does. As a result, enterprise funds are referred to frequently as proprietary type funds to distinguish them from the formal budgetary type funds or governmental type funds, i.e., the general fund, special revenue funds, capital projects funds, and debt service funds where the emphasis is on spending rather than net income. Sound business practices require the use of comprehensive financial plans or "budgets" which serve as a guide to management in providing adequate resources and in providing adequate expenditure controls. These "budgetary" estimates which should be adopted by the board of education may be retained in memorandum form and utilized in the preparation of comparative operating statements.

Successful operation of an enterprise fund is not only important to the enterprise fund but it is also important to other funds, particularly if a loss has to be made up by a subsidy from another fund or if the enterprise fund has a continuing obligation to another fund.

OPERATION OF ENTERPRISE FUNDS

An enterprise fund may be created by capital being transferred from the general fund, a special revenue fund, a capital projects fund, or from contributions from a local, state, or federal unit of government. The amount of capital originally invested to create the enterprise fund is intended to remain intact. Accounts in the fund equity section of the balance sheet which record the amount of the original investment may have a title such as "federal government contribution", "state government contribution", or "contribution from the general fund". These amounts are to be retained intact.

Money with which to purchase assets and operate the fund may also come from a long-term advance from a fund of the school district or from another unit of government. An advance, however, indicates that the amount is a liability rather than fund equity. The liability continues to exist until it is either increased by additional advances or reduced by returning a part or all of the advance to its source.

Assume that a school system creates an enterprise fund through which it plans to operate a vocational education project, an automotive repair shop

Capital of $50,000 is to be raised by a contribution from federal sources of $30,000, from state sources of $10,000, and from a long-term advance from the general fund of $10,000. Upon completion of all requirements and notification that all legal procedures have been completed the following entry would record creation of the enterprise fund:

Due from federal government	30,000	
Due from state government	10,000	
Due from the general fund	10,000	
Federal government contribution		30,000
State government contribution		10,000
Advance from general fund		10,000
To record creation of an enterprise fund to operate a vocational education project, an automotive repair shop.		

The process of conversion of claims into cash may be lengthy. However, assume that ultimately all assets are converted into cash. The result is represented by the following entry:

Cash	50,000	
Due from federal government		30,000
Due from state government		10,000
Due from the general fund		10,000
To record receipt of cash from each source indicated.		

Assume that land of $2,000 is acquired, including all costs of acquisition. The following entry is made:

Land	2,000	
Cash		2,000
To record purchase of land.		

A contract is let for construction of a building for servicing the project in an amount not to exceed $25,000. Upon completion of the contract, the following entry is made:

Building	25,000	
Contracts payable		25,000
To record completion of construction of building.		

Assume that the contract contained a 10% retained percentage clause and that $22,500 is paid, withholding $2,500 until final inspection is made. The entry is as follows:

Contracts payable	25,000	
Cash		22,500
Contracts payable, retained percentage		2,500
To record payment of contract, with holding 10%.		

Structures, machinery, and equipment and other assets such as tools, parts, etc., may be acquired through routine purchasing procedures. Sources of revenue may be from sales of finished products, finished jobs, sale of repair parts and supplies, etc. Accounting procedures, therefore, have to be tailored to meet the individual needs of the particular enterprise fund.

FIXED ASSETS IN ENTERPRISE FUNDS

Unlike the formal budgetary or governmental type funds, fixed assets used in operation of an enterprise fund are carried in the fixed assets section of the balance sheet of the enterprise fund. These fixed assets are subject to depreciation. Depreciation is an expense which must be included when setting prices for services rendered or for goods produced. By recovering the cost of depreciation in the price for sales or services rendered, it is possible to accumulate an amount equal to the cost of the asset over the useful life of the asset, thereby permitting its replacement without depleting the original fund balance of the enterprise fund.

DEPRECIATION ACCOUNTING

Accounting Research Bulletin No. 43 published by the American Institute of Certified Public Accountants defines depreciation as: "The cost of a productive facility is one of the costs of the services it renders during its useful economic life. Generally accepted accounting principles require that this cost be spread over the expected useful life of the facility in such a way as to allocate it as equitably as possible to the periods during which services are obtained from the use of the facility. This procedure is known as depreciation accounting, a system of accounting which aims to distribute the cost or other basic value of tangible capital assets, less salvage (if any), over the estimated useful life of the unit (which may be a group of assets) in a systematic and rational manner. It is a process of allocation, not of valuation." Many different methods may be used in computing what portion of the cost of the asset is properly allocated as an expense during a fiscal period. Among them are:

1. The straight-line method. The estimated useful life of each asset is used as the basis for spreading the cost of the asset equally to each fiscal period. For example, if an asset cost $1,000 and has an estimated useful life of ten years, the depreciation is estimated to be 10 per cent per year or $100. Because of the simplicity of computation, the straight-line method is most widely used, particularly in view of the fact that whatever the amount computed, it remains an estimate and is subject to revision. In order that cost be computed as close to actual as possible, care should be exercised in setting the estimated useful life. In computing depreciation, consideration should be given to the estimated value at the end of the useful life, referred to as scrap value. The difference

between cost and the scrap value is the amount to be spread equally to each fiscal period.

2. The useful hours method. This method of estimating depreciation costs uses the estimated number of useful hours as the basis for distributing costs to the fiscal period. This method is used primarily in cases of machinery and equipment. The total to be depreciated is the difference between cost of the asset and its estimated scrap value. The total to be depreciated is divided by the estimated useful hours to produce the amount of estimated depreciation per hour. To use this method, records of hours used are required for each fiscal period. The amount is computed by multiplying the number of hours of actual use during the fiscal period by the amount of depreciation per hour.

3. The units of output method. When an asset is acquired, the number of units to be produced over the useful life of the asset is estimated. The number is divided into the total amount to be depreciated over the useful life. Again, the amount to be depreciated is the difference between the asset's cost and its estimated scrap value. To use this method of depreciation, a record of units produced each period must be kept. The number of units produced each fiscal period multiplied by the rate per unit produces the estimated depreciation.

4. Other methods. Other methods of estimating depreciation are used. Among these are: accelerated depreciation, declining balance method, sum of the years digits method, average depreciation rates, composite depreciation rates, blanket rates, reducing charge. Each attempts to compute as accurately as possible the annual depreciation of the fixed assets.

ACCOUNTS RELATED TO DEPRECIATION

Enterprise funds keep accounts for fixed assets. They are debited for all costs properly chargeable to the asset account. Such charges frequently are referred to as capital charges. Subsidiary ledger accounts are kept which identify each of the assets according to group classifications such as machinery, equipment, etc. Data about original cost, name of supplier, serial number, name and address of manufacturer, estimated useful life, date purchased, rate of depreciation, annual depreciation charges, date of disposition, method of disposition, proceeds from disposition, references to minutes of the meeting of the board of education authorizing purchase, sale, exchange, or other disposition, and other information is given in the subsidiary ledger records. The cost of the fixed assets is reported in the balance sheet of the fund.

A depreciation expense account is debited at the end of the fiscal period to record the estimated depreciation on each of the fixed assets. The title of the expense account is, "depreciation expense-machinery," "depreciation expense-equipment," or other descriptive title. This is an expenditure account; it is closed into the fund's revenue and expenditure summary account at the end of the fiscal period and is ruled as other temporary accounts are.

The corresponding credit is to an account such as "accumulated depreciation-machinery" or "accumulated depreciation equipment." This is a balance sheet account and the amount contained in the account is subtracted on the balance sheet from the corresponding asset's cost. The difference between the cost of the asset, as shown in the fixed asset account, and the accumulated depreciation reported in the allowance for depreciation account is referred to as the book value of the asset. The allowance for depreciation account is a balance sheet account; therefore, it remains on the books as long as the fixed asset does.

DISPOSITION OF FIXED ASSETS

Fixed assets of an enterprise fund are disposed of by sale, exchange, loss, or transfer to the general fixed assets group of accounts, to other enterprise funds, or to internal services funds.

Sale of fixed assets. When a fixed asset is sold, the asset account is credited for the cost of the asset and the related accumulated depreciation account is debited for the depreciation accumulated to the date of disposition. The difference is the book value of the asset. If proceeds are less than the book value, a loss occurs which is recorded by debiting an expense account entitled "loss on sale of fixed assets." If proceeds from the sale are more than book value, a gain occurs which is recorded by crediting an account entitled "gain on sale of fixed assets." Both the gain and the loss accounts are temporary accounts which are closed into the revenue and expenditure summary of the fund at the end of the accounting period.

Exchange of fixed assets. At the time a fixed asset is exchanged, the fixed asset account must be credited for the cost assigned to the asset exchanged. The allowance for depreciation account is debited for the amount of depreciation accumulated to the date of disposition of the asset. The difference between the cost and the accumulated depreciation is added to the exchange price and is debited in total to a new fixed asset account. The cash account or accounts payable account is credited for the amount of the exchange price. Depreciation on the new asset is computed on the total of the exchange price paid plus the book value of the asset given in exchange.

Loss of fixed assets. Two situations may arise as a result of loss of an asset. In either case, the fixed asset account is credited for the cost of the asset and the related allowance for depreciation account is debited for accumulated depreciation on the asset to the date of the loss. The difference is the book value. If the asset is not insured, the book value is the amount of the loss. The loss is recorded by debiting an expense account entitled "loss on fixed assets". The loss account is a temporary account which is closed into the fund's revenue and expenditure summary account at the end of the fiscal period. If, however, the loss is covered by insurance, a claim is filed against the insurance company and that claim is an asset. The claim against the insurance company is recorded by debiting an account entitled "claim against insurance company for asset destroyed by fire." Settlement with the insurance company can be for more or less than the claim. When cash is received, the cash account is debited and the claim account is credited for the amount of the claim. The difference between the amount of the claim and the cash collected will be recorded in a loss or gain account when the amount is finally determined.

Transfer to the general fixed assets account group When a fixed asset is retired from an enterprise fund, the fixed asset account is credited for the cost and the related accumulated depreciation account is debited for the amount of depreciation accumulated to the date of transfer. The difference, or book value, is debited to the fund balance account, representing a return of capital. A corresponding entry will be made in the general fixed assets account group to record the asset, an illustration of which is in chapter 14 on general fixed assets.

Accounts related to depreciation are necessary for enterprise funds in order that the decline in value of fixed assets due to depreciation can be computed and recorded as a part of the cost of providing the goods or services. Otherwise, it would be impossible to keep the fund equity account intact; it would be reduced by a decline in value of assets if such a decline is not recovered by depreciation charges. Furthermore, failure to consider depreciation as a part of the cost of a service rendered by an enterprise fund would produce a figure which would be too low in comparison with costs of similar assets or services that could be acquired from private sources outside the school system under a contractual arrangement. The use of depreciation expense accounts in enterprise funds is customary in areas of financial activity which involve the use of public funds.

Depreciation accounts are not kept for a governmental unit's general fund because fixed assets are not recorded in the general fund. General fixed assets or long-term assets are recorded in the general fixed assets group of accounts. Fixed assets carried in the accounts of enterprise funds are investments rather than expenditures.

THE REVENUE AND EXPENSE STATEMENT

An enterprise fund is designed to serve a self-supporting activity. Once the original investments are made in the fund, the fund equity accounts which show the amount of capital originally invested in the enterprise fund should remain intact. This is possible because the revenue and expenditure summary is closed into the retained earnings account, there being no budgeted fund balance account. A credit balance in the retained earnings account indicates that to date, revenue has exceeded expenses. A debit balance in the retained earnings account indicates that a deficit exists, i.e., expenses have exceeded revenue. A revenue and expense statement is used in enterprise funds to report the net income or the net loss from operations rather than a statement of revenues and expenditures as is used in the formal budgetary or governmental type funds.

Enterprise funds operate to provide services. In many cases, the enterprise may not be totally self-supporting, but it is desirable to keep separate accounts to control the amount of the net income or net loss that occurs from the enterprise fund's transactions. If a net income results, it may be retained in the enterprise fund's retained earnings account or it may, upon direction of the board, be transferred to some other fund. Conversely, if the enterprise fund operates at a net loss, a subsidizing transfer may be required from a source such as the general fund, to avoid depletion of the enterprise fund's original capital or contributions accounts. By maintaining separate accounts which permit the computation of the enterprise's net income or net loss, the amount to be expended from other funds for these services can be effectively controlled.

Sales. In an enterprise fund, the sales are the total amount customers, consumers, or users have paid or have agreed to pay for the goods or services. Sales can be either for cash or on account. Either the cash account or accounts receivable is debited and the income account by a title such as sales, revenue from sales, income from sales, or other similar title is credited. Cash or accounts receivable affect the balance sheet while the sales account is an income or revenue account affecting the statement of income and expense. As a result, the sales account, being a revenue account, is closed to the fund's revenue and expense summary at the end of the fiscal period.

Tickets Redeemed. In the case of school food services, it is necessary to provide free or reduced-price meals in some cases in order to participate in the National School Lunch and Special Milk Reimbursement programs of the U. S. Department of Agriculture. Surplus commodities, food and milk, are available to participants as a result of filing information with the appropriate governmental agency in the individual state about the number of free and reduced-price lunches and the amount of milk consumed in the program. Therefore, tickets may be issued to those entitled to these lunches as well as to those who wish to purchase them. Income from sales is determined by the number of tickets that are purchased.

National School Lunch and Special Milk Reimbursement. Accounts are needed to record the amount earned by the school district as a result of participation in the National School Lunch and the Special Milk programs. The account titles may be "revenue from federal sources", "income from federal surplus commodities", or "income from federal reimbursement". These are income accounts which are credited for the market value of commodities on the date that they are received. They are income accounts and will be closed into the revenue and expense summary at the end of the fiscal period.

COST OF FOOD SOLD—COST OF GOODS SOLD

Cost of goods sold is a major element of cost in the operation of an enterprise fund, whether it is food, books, or other commodities acquired for the purpose of resale. Two methods are used in accounting for cost of goods sold. One is a physical inventory or periodic inventory method. The second is the perpetual inventory method. Goods on hand at any specific time are referred to as merchandise inventory, food inventory, or by an appropriate inventory description. In computing the cost of goods sold, the amount of the inventory may be determined by physical count of the goods on hand once each year. Such a count of goods on hand is known as a physical inventory. A perpetual inventory requires an inventory account in which all units purchased are entered at cost and all units sold or issued are recorded at cost.

PHYSICAL OR PERIODIC INVENTORY METHOD

Assume that a physical inventory taken at July 1, 19--, amounted to $2,000. During the year total purchases amounted to $37,200. Purchases of goods for resale are charged to the purchases account and may be made either by cash or on open account payable. The entries to record purchases for cash and purchases on account are as follows:

Purchases	25,800	
Cash		25,800
To record purchase of merchandise for cash.		
Purchases	11,400	
Accounts (vouchers) payable		11,400
To record purchase of merchandise on account.		

Frequently goods purchased for the purpose of resale or conversion into goods that can be sold do not meet the purchaser's specifications because of damage, deterioration, or other cause, which makes goods purchased unacceptable. Therefore, the goods are either returned to the supplier or an allowance is granted by the supplier either for damage or for unsatisfactory goods without return. The following entry would record the return of purchases or an allowance.

Accounts payable	430	
Purchase returns and allowances		430
To record return of purchases found to be unacceptable.		

At the time of receiving food commodities from the U. S. Department of Agriculture, they should be recorded as having been received and the commodities should be recorded at the fair market value at the date received. The following entry would identify the value of surplus commodities received and the source:

U.S.D.A. Commodities	7,650	
Revenue from federal government		7,650
To record receipt of surplus food from the U. S. Department of Agriculture at fair market value on date received.		

The cost of transportation on all goods purchased for the purpose of resale is a part of the cost of goods sold. Therefore, the following entry records payment of freight bills on both goods purchased and goods received from the U. S. Department of Agriculture:

Freight in	880	
Cash		880
To record payment of freight on goods purchased or acquired from U.S.D.A.		

To compute the cost of goods sold, a physical inventory has to be taken at the end of the fiscal period. Assume that this inventory at the end of the fiscal period amounted to $3,100 on June 30. Two general journal entries are needed. One entry removes the old (beginning) inventory of July 1 and the second entry records the new inventory of June 30. Both entries are made to the fund revenue and expense summary account as follows:

Revenue and expense summary	2,300	
Food inventory		2,300
To remove the beginning inventory from the accounts and to charge the July 1 inventory to the revenue and expense summary account.		
Food inventory	3,100	
Revenue and expense summary		3,100
To record the ending inventory as of June 30, 19--.		

The effect of these entries would be presented in the school food services fund cost of food sold section of the income and expense statement for the year ended June 30, 19--, as follows:

Cost of Food Sold:				
Food inventory, July 1, 19....			$ 2,300	
Add: purchases	$37,200			
Less: purchases returns and allowances	430	$36,770		
•U.S.D.A. commodities		7,650		
Freight in		880	45,300	
Food available for use			$47,600	
Less food inventory, June 30, 19....			3,100	
Cost of food sold				$44,500

Assume cash sales of $54,300; tickets redeemed of $24,860; national school lunch and special milk reimbursement of $2,620 as sources of income. In addition, assume operating expenses as follows: salaries and fringe benefits totalled $38,600; paper supplies used, $970; cleaning supplies used, $450; travel, $160; insurance expense, $240; maintenance and repairs, $360; and depreciation on equipment, $1,200. Other income, revenue from federal sources, U. S. Department of Agriculture commodities, $7,850. The income and expense statement would appear as follows:

Exhibit B

NEW SCHOOL SYSTEM
School Food Services
An Enterprise Fund
Statement of Income and Expense
for the year ended June 30, 19....

Income:				
Cash sales			$54,300	
Tickets redeemed			24,860	
National school lunch and special milk reimbursement			2,620	
Total income				$81,780
Cost of food sold:				
Food inventory, July 1, 19....			$ 2,300	
Add:				
Purchases	$37,200			
Less purchase returns and allowances	430	$36,770		
*USDA commodities		7,650		
Freight in		880	45,300	
Food available for use			$47,600	
Less food inventory, June 30, 19....			3,100	
Cost of food sold				44,500
Gross margin on operations				$37,280
Operating expenses:				
Salaries and fringe benefits			$38,600	
Paper supplies used			970	
Cleaning supplies used			450	
Travel			160	
Insurance			240	
Maintenance and repairs			360	
Depreciation on equipment			1,200	
Total operating expenses				41,980
Net income (loss) from operations				$ (4,700)
Other income:				
*USDA commodities				7,650
Net income				$ 2,950

*Commodities received from the U.S. Department of Agriculture shown in the cost of food sold section and as other income are recorded at fair market value on the date received.

PERPETUAL INVENTORY METHOD

The cost of goods sold can be determined only at the end of the fiscal period when the periodic inventory method is used. As a result, physical inventories are usually taken only at the end of each fiscal period. As an alternative for the periodic inventory method, the perpetual or book inventory method for computing the cost of goods sold has been used in enterprise funds.

When the perpetual inventory method is used, an account is created to identify the inventory by an appropriate title such as food inventory, inventory of books and supplies, automotive parts inventory, etc. When inventory items are purchased, the inventory account is debited for the cost and when inventory items are issued or sold, the inventory account is credited for cost. When inventory items are issued or sold, the corresponding debit is to an account identified by title such as cost of goods sold, cost of food sold, cost of parts sold, or other appropriate account title. The balance of the inventory account should be the amount on hand. It is not necessary to take a physical count to determine the balance of the inventory account for interim financial statement purposes when the perpetual inventory method is used.

It may be desirable to verify the accuracy of the book balance in the inventory account periodically in order to detect possible errors in recording or to detect possible controllable losses. Actual physical count of inventory, in the perpetual inventory method, does not have to be postponed until the end of the fiscal period to determine the accuracy of both the physical count and the book balance. The perpetual inventory method requires the use of an inventory account for each kind of item carried in inventory. Individual accounts are carried in subsidiary ledger accounts which show in detail the amounts recorded in the enterprise fund's general ledger controlling inventory accounts.

An illustration of the perpetual inventory controlling account transactions is shown:

	INVENTORY CONTROL		SALES		COST OF SALES		REVENUE AND EXPENSE SUMMARY	
Beginning inventory	1,200							
Purchases	4,000							
Freight in	100							
Purchase returns and allowances		300						
Sales or issues:								
Selling price				2,600				
Cost		2,000			2,000			
Closing entries:								
Sales			2,600					2,600
Cost of sales						2,000	2,000	
Ending inventory		3,000						
	5,300	5,300	2,600	2,600	2,000	2,000		
Beginning inventory	3,000							

For enterprise funds maintaining perpetual inventory systems, a running record is kept for each of the various kinds of inventory items held for the purpose of sale or issue. The running record shows unit cost, number of units, total cost of the beginning inventory, cost of each purchase, and cost of each sale or issue. An illustration of a subsidiary ledger account for an item of inventory is shown:

INVENTORY CARD

Description ______________________ Unit Size ______________

Date		PURCHASED			SOLD			INVENTORY		
		Number of Units	Cost per Unit	Total Cost	Number of Units	Cost per Unit	Total Cost	Number of Units	Cost per Unit	Total Cost

INVENTORY PRICING

There are a number of acceptable bases for placing a value on inventory. These various methods have been developed to meet the needs of individual kinds of profit-making enterprises. In commercial concerns the basis used for inventory must be consistently followed for federal income tax purposes while, in school accounting, consistency is necessary if financial statements of one period are to be comparable to financial statements of another period. The two bases most commonly used are:

A. Cost
B. Cost or market, whichever is lower

In determining cost of inventory on hand, a number of methods have been developed: specific identification; moving-average; weighted average; last-in, first-out; and first-in, first-out. When using perpetual inventory cards, cost can be easily computed, based upon the method of determining cost selected. When using a periodic inventory method, the most economical method of pricing on a cost basis is first-in, first-out. In this case, all units remaining in inventory can be traced to the most recent purchase invoices and to cost identified by item, unit price, and quantity. More complex methods of inventory valuation are not as important to a school system as they are to private enterprises operating under federal income tax rules and regulations.

ILLUSTRATIVE TRANSACTIONS

Assume that the New Hope School System operates a vocational education automotive repair shop and that the accounts of the auto repair shop's enterprise fund as of January 1, 19--, had balances as follows:

Cash	$ 250	
Accounts receivable	690	
Allowance for uncollectible accounts		$ 20
Land	3,000	
Building	7,000	
Allowance for depreciation – buildings		700
Equipment	3,500	
Allowance for depreciation – equipment		500
Vouchers payable		680
Advance from the general fund		10,000
Governmental unit's contribution		2,000
Auto repair shop retained earnings		540
	$14,440	$14,440

The following tansactions are reported and recorded in summary for the year:

1. Cash sales for auto services, repairs, etc., $4,700.
2. Repair parts and supplies purchased on account for which a voucher was prepared, $2,000.
3. Invoices for the following were received: electricity, $300; repairs on equipment, $220; gasoline and oil, $750; insurance premiums, $830; totaling $2,100. Of this amount, $1,780 was paid and the remainder was vouchered.
4. Salaries of $2,000 were paid.
5. Vouchers payable as of January 1, 19--, were paid.
6. Accounts receivable as of January 1, 19--, were col lected.
7. Total sales of auto repair services amounted to $7,000 of which $4,700 was cash sales reported in item 1, above.
8. Interest expense was accrued at 3% on the advance from the general fund for the year and has not been paid.
9. Depreciation on buildings was estimated at $160 and on equipment, $200.
10. The allowance for uncollectible accounts was increased by $40.

General journal entries to record the transactions would appear as follows:

1.	Cash	4,700	
	Revenue from auto repair services		4,700
	To record cash sales of services, repairs, parts, etc.		
2.	Parts and supplies used	2,000	
	Vouchers payable		2,000
	To record repair parts and supplies purchased on account.		
3.	Electricity	300	
	Repairs on equipment	220	
	Gasoline and oil expense	750	
	Insurance expense	830	
	Cash		1,780
	Vouchers payable		320
	To record invoices paid and vouchered.		
4.	Salaries expense	2,000	
	Cash		2,000
	To record payment of salaries.		
5.	Vouchers payable	680	
	Cash		680
	To record payment of vouchers payable.		
6.	Cash	690	
	Accounts receivable		690
	To record collection of accounts receivable of January 1, 19--.		
7.	Accounts receivable	2,300	
	Revenue from auto repair services		2,300
	To record sales on account.		
8.	Interest expense	300	
	Interest payable		300
	To record accrued interest for one year at 3% on $10,000 advance from the general fund.		
9.	Depreciation expense-building	160	
	Depreciation expense-equipment	200	
	Allowance for depreciation-building		160
	Allowance for depreciation equipment		200
	To record depreciation for year.		
10.	Loss on uncollectible accounts	40	
	Allowance for uncollectible accounts.		40
	To record additional allowance for estimated uncollectible taxes.		

If financial statements of the fund were prepared at this point, the balance sheet and income statement would appear as follows:

Exhibit A

NEW HOPE SCHOOL SYSTEM
Auto Repair Shop
An Enterprise Fund
Balance Sheet
December 31, 19....

Assets

Current Assets:			
Cash		$1,180	
Accounts receivable	$2,300		
Less: Allowance for uncollectible accounts	60	2,240	
Total current assets			$ 3,420
Fixed Assets:			
Land		$3,000	
Buildings	$7,000		
Less: Allowance for depreciation – buildings	860	6,140	
Equipment	$3,500		
Less: Allowance for depreciation – equipment	700	2,800	
Total fixed assets			11,940
Total Assets			$15,360

Liabilities, Contributions and Fund Balance

Current Liabilities:		
Vouchers payable	$2,320	
Interest payable	300	$ 2,620
Long-term Liabilities:		
Advance from general fund		10,000
Total liabilities		$12,620
Contributions:		
Governmental units contribution		2,000
Unappropriated fund balance:		
Retained earnings, January 1, 19--	$ 540	
Add: net income, exhibit B	200	
Retained earnings, December 31, 19--		740
Total liabilities, contributions and fund balance		$15,360

Exhibit B

NEW HOPE SCHOOL SYSTEM
Auto Repair Shop
An Enterprise Fund
Income and Expense Statement
for the year ended December 31, 19...

Revenue:		
Revenue from auto repair sales and services		$7,000
Expenses:		
Parts and supplies used	$2,000	
Electricity	300	
Repairs of equipment	220	
Gasoline and oil expenses	750	
Insurance expense	830	
Interest expense	300	
Depreciation expense – building	160	
Depreciation expense – equipment	200	
Salaries expense	2,000	
Bad debt expense	40	
Total expenses		6,800
Excess revenue over expenses		$ 200

CLOSING ENTRIES

At the close of the accounting period, enterprise funds are required to close all temporary accounts. The closing entries for the year ended December 31, 19--, are as follows:

Revenue from auto repair sales and services	7,000	
Revenue and expense summary		7,000
To close the revenue account.		
Revenue and expense summary	6,800	
Parts and supplies used		2,000
Electricity		300
Repair of equipment		220
Gasoline and oil expense		750
Insurance expense		830
Interest expense		300
Depreciation expense-building		160
Depreciation expense-equipment		200
Salaries expense		2,000
Bad debt expense		40
To close expense accounts.		
Revenue and expense summary	200	
Retained earnings		200
To close the revenue and expense summary.		

THE WORK SHEET

The following illustrates how financial statements can be prepared by use of a work sheet. In the case of enterprise funds, computation of the cost of goods sold is an important objective. This work sheet is prepared to illustrate how adjustments may be made on the work sheet for food inventory. Other adjusting entries could be made also. Following preparation of the trial balance and adjusting entries, an adjusted trial balance can be used. Although the adjusted trial balance columns are not absolutely necessary, they prove the equality of debits and credits prior to distributing the adjusted account balances to the appropriate financial statement columns of the work sheet.

The work sheet is not a formal part of the accounting records. It is a work sheet to assist in preparation of financial statements. Therefore, any adjustments made on a work sheet of this nature require an entry to be made in the general journal. From the general journal, the entry will be posted to the accounts affected, thereby bringing the accounts in the general ledger to balances which appear on the financial statements. The general journal entries required to record the adjustments illustrated on this work sheet are as follows:

Revenue and expense summary	12,000	
Food inventory		12,000
To close the food inventory account balance at the beginning of the accounting period and to charge the revenue and expense summary for it.		
Food inventory	4,000	
Revenue and expense summary		4,000
To record the food inventory at the end of the accounting period and to relieve the revenue and expense summary for the asset remaining on hand.		

NEW SCHOOL DISTRICT
CAFETERIA FUND
AN ENTERPRISE FUND
WORK SHEET
(DATE)

	TRIAL BALANCE		ADJUSTMENTS		ADJUSTED TRIAL BALANCE		REVENUE AND EXPENDITURE SUMMARY		BALANCE SHEET	
	DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	EXPENSE	REVENUE	DEBIT	CREDIT
Cash	$ 3,000				$ 3,000				$ 3,000	
Accounts Receivable	4,000				4,000				4,000	
Food Inventory	12,000		$ 4,000	$12,000	4,000				4,000	
Accounts Payable		$ 1,000				$ 1,000				$ 1,000
Retained Earnings		5,000				5,000				5,000
State and Federal Reimbursement		24,000				24,000		$24,000		
Sale of Lunches		30,000				30,000		30,000		
Food Purchases	20,000				20,000		$20,000			
Freight and Cartage	200				200		200			
Labor	18,000				18,000		18,000			
Laundry	800				800		800			
Other Lunch Program Expenses	2,000				2,000		2,000			
	$60,000	$60,000								
Revenue and Expense summary			12,000	4,000	12,000	4,000	12,000	4,000		
			$16,000	$16,000	$64,000	$64,000	$53,000	$58,000	$11,000	$ 6,000
Net Income							5,000			5,000
							$58,000	$58,000	$11,000	$11,000

FINANCIAL STATEMENTS OF ENTERPRISE FUNDS

The financial statements prepared from this work sheet are the statement of income, expense and retained earnings, and the balance sheet. They are presented as follows:

Exhibit B

NEW SCHOOL DISTRICT
Cafeteria Fund
An Enterprise Fund
Statement of Income, Expenses and Retained Earnings
For Year Ended December 31, 19--

Revenues:			
State and federal reimbursement			$24,000
Sale of lunches			30,000
Total revenues			$54,000
Food costs:			
Food inventory, January 1, 19....		$12,000	
Add:			
Food purchases	$20,000		
Freight and cartage	200		
Delivered cost of purchases		20,200	
Food available for use		$32,200	
Less food inventory, December 31, 19....		4,000	
Food cost			28,200
Gross margin			$25,800
Less operating costs:			
Labor		$18,000	
Laundry		800	
Other lunch program expenses		2,000	
Total operating costs			20,800
Net income			$ 5,000
Retained earnings, January 1, 19--			5,000
Retained earnings, December 31, 19--			$10,000

Exhibit A

NEW SCHOOL DISTRICT
Cafeteria Fund
An Enterprise Fund
Balance Sheet
December 31, 19....

Assets		
Cash	$3,000	
Accounts receivable	4,000	
Food inventory	4,000	
Total assets		$11,000
Liabilities and Fund Equity		
Accounts payable		$ 1,000
Retained earnings		10,000
Total liabilities and fund equity		$11,000

The statement of changes in financial position is also prepared for each enterprise fund. Comparative balance sheets are necessary to determine the net changes in each asset and liability account. Analysis of the comparative balance sheets also indicates the total changes that have occurred in the fund equity accounts, changes that may involve transactions other than those resulting in a net income (the excess of revenue over expenses) or a net loss (the excess of expenses over revenue). A work sheet for the statement of changes in financial position is presented as follows:

NEW SCHOOL DISTRICT
AN ENTERPRISE FUND
CAFETERIA FUND
WORKING PAPERS FOR
STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31 19--

	JANUARY 1, 19--	DECEMBER 31, 19--	NET CHANGES IN ACCOUNTS		ADJUSTMENTS		APPLIED	PROVIDED
			DEBITS	CREDITS	DEBITS	CREDITS		
Cash	$ 1,000	$ 3,000	$ 2,000			d) $ 2,000		
Accounts receivable	5,000	4,000		$ 1,000	b) $ 1,000			
Food inventory	7,000	4,000		3,000	c) 3,000			
Total	$13,000	$11,000						
Accounts payable	8,000	$ 1,000	7,000			e) 7,000		
Retained Earnings	5,000	10,000		5,000	a) 5,000			
Total	13,000	$11,000	$ 9,000	$ 9,000				
Source:								
From revenues:								
State and federal reimbursement						a) 24,000		$24,000
Sale of lunches						a) 30,000		30,000
From decreases in assets:								
Accounts receivable						b) 1,000		1,000
Food inventory						c) 3,000		3,000
Application:								
To operations:								
Food cost					a) 28,200		$28,200	
Labor					a) 18,000		18,000	
Laundry					a) 800		800	
Other lunch program expenses					a) 2,000		2,000	
To increasing assets:								
Cash					d) 2,000		2,000	
To decreasing liabilities:								
Accounts payable					e) 7,000		7,000	
Total					$67,000	$67,000	$58,000	$58,000

The statement of changes in financial position is presented as follows:

NEW SCHOOL DISTRICT
Cafeteria Fund
An Enterprise Fund
Statement of Changes in Financial Position
For the year ended December 31, 19....

Exhibit C

Resources provided:		
From revenues:		
State and federal reimbursement	$24,000	
Sale of lunches	30,000	$54,000
From decreasing assets:		
Accounts receivable	$ 1,000	
Food inventory	8,000	9,000
Total resources provided		$63,000
Application of resources:		
To operations:		
Food costs	$28,200	
Labor	18,000	
Laundry	800	
Other lunch program expenses	2,000	$49,000
To increasing assets:		
Cash		2,000
To decreasing liabilities:		
Accounts payable		12,000
Total resources applied		$63,000

FUNDS THAT SERVE ENTERPRISE FUNDS

Enterprises which serve school districts frequently are involved in unusual kinds of transactions and it may be appropriate for a number of funds to be created under the direction of the administrative officers of the enterprise fund. For instance, revenue bonds issued may require that income earned from the bonds issued by the enterprise fund be deposited in a debt service fund. If that is the case, the enterprise fund could administer a debt service fund effectively as a part of its accounting structure.

Because of the costly nature of plant assets used in operation of an enterprise fund, the board of education and administrative officers may wish to set aside cash in an asset replacement fund throughout the useful life of the currently used fixed assets. The objective is to invest this cash in income producing securities and accumulate sufficient resources over the useful lives of present fixed assets of the enterprise fund so that the investments may be converted into cash for replacement of fixed assets when needed. Therefore, the board and administrative officers of an enterprise fund may find that the use of accounting principles applicable to debt service funds could effectively be expanded to serve as an asset replacement fund.

The concept of accumulating resources for the retirement of debt over a long period of time has been well established. Accumulation of resources to replace costly fixed assets in lieu of accumulating them to retire debt could easily follow the accounting structure used for debt service funds. Accumulation of adequate resources to acquire costly fixed assets at the end of the useful life of presently used fixed assets could effectively eliminate the need for borrowing money and paying interest on outstanding debt for the purchase of fixed assets.

INTERIM FINANCIAL REPORTING FOR ENTERPRISE FUNDS

It is the individual enterprise fund that requires a separate set of books of original entry, a general ledger, subsidiary ledgers, adequate supporting business documents which provide evidence that transactions actually occurred, and interim and annual financial statements for effective financial administration and control. Interim financial statements should be prepared for each enterprise fund at the close of each month and copies of them should be presented to members of the board of education prior to the monthly meeting of the board at which business matters will be discussed. The following financial statements are taken from Salt Lake City School District, Salt Lake City, Utah, comprehensive annual financial report for the year ending June 30, 1981, to illustrate how financial statements should be presented for the individual enterprise fund.

SCHOOL FOOD SERVICES FUND
(An Enterprise Fund)

Comparative Balance Sheet
June 30, 1981 and 1980

	1981	1980
ASSETS		
Current assets:		
Cash in bank	$ 221	$ 757
Accounts receivable:		
Local sources	58,510	70,110
State of Utah	80,794	71,366
Federal government	8,167	—
Total	147,921	141,476
Inventory	74,466	108,687
Prepaid expenses	16,567	35,329
Total Current Assets	239,175	286,249
Fixed assets:		
Equipment at cost less accumulated depreciation (Note 8)	1,383,555	1,321,036
Total Assets	$1,622,730	$1,607,285
LIABILITIES AND RETAINED EARNINGS		
Current liabilities:		
Accounts payable	$ 5,916	$ 2,714
Deferred revenue	36,099	44,738
Due to other funds	252,330	393,865
Total Liabilities	294,345	441,317
Fund Equity:		
Contributions of equipment from other funds	782,674	789,045
Retained earnings	545,711	376,923
Total Fund Equity	1,328,385	1,165,968
Total Liabilities and Fund Equity	$1,622,730	$1,607,285

See notes to financial statements.

SCHOOL FOOD SERVICES FUND
(An Enterprise Fund)

Comparative Statement of Revenues, Expenses, and Changes in Retained Earnings
Years Ended June 30, 1981 and 1980

	1981	1980
Operating Revenues:		
Sale of food:		
Children—lunch sales	$ 674,754	$ 637,835
Adult—lunch sales	99,776	102,466
Special milk	30,726	25,019
Other food sales—district	116,373	143,816
Contracted sales	115,286	87,714
Total lunch sales	1,036,915	996,850
State and federal subsidy:		
State school lunch program	321,213	292,155
Federal school lunch program	1,364,833	1,238,957
Federal special milk program	15,041	25,380
Federal breakfast program	160,859	113,779
Federal child care program	48,498	39,167
Other	1,674	2,550
Total state & federal subsidy	1,912,118	1,711,988
Total Operating Revenues	2,949,033	2,708,838
Operating Expenses:		
Cost of food sold	1,003,762	1,082,897
Salaries	1,162,451	959,109
Accrued vacation expense	3,615	2,068
Supplies	93,054	132,682
Services	16,563	12,928
Cost of occupied space	160,560	162,602
Equipment maintenance expenses	41,829	42,610
Medical insurance—employees	107,738	100,287
Other expenses	17,962	16,292
Depreciation	191,240	162,493
Total Operating Expenses	2,798,774	2,673,968
Operating income	150,259	34,870
Non-Operating revenues:		
Federal equipment support	18,529	—
Net Income	168,788	34,870
Retained Earnings July 1	376,923	342,053
Retained Earnings June 30	$ 545,711	$ 376,923

See notes to financial statements.

SCHOOL FOOD SERVICES FUND
(An Enterprise Fund)

Comparative Statement of Changes in Financial Position
Years Ended June 30, 1981 and 1980

	1981	1980
Sources of Working Capital:		
Operating revenue	$2,949,033	$2,708,838
Non-operating revenue	18,529	—
Items not requiring current outlay of funds—depreciation	191,240	162,493
Decrease in working capital	—	437,375
Total	$3,158,802	$3,308,706
Uses of Working Capital:		
Expenses	$2,798,774	$2,673,968
Equipment purchases	260,130	634,738
Increase in working capital	99,898	—
Total	$3,158,802	$3,308,706
Elements of Net Increase (Decrease) in Working Capital:		
Cash in bank	$ (536)	$ (64,577)
Accounts receivable	6,445	85,606
Inventory	(34,221)	(113,981)
Prepaid expenses	(18,762)	1,496
Accounts payable	(3,202)	5,036
Deferred local revenue	8,639	(44,638)
Due to other funds	141,535	(313,654)
Contributions of equipment from other funds	—	7,337
Total	$ 99,898	$ (437,375)

See notes to financial statements.

COMBINING FINANCIAL STATEMENTS, ALL ENTERPRISE FUNDS

The problem of "combining" financial statements arises again and it is required for all enterprise funds as a basis for condensing the financial statements for the comprehensive annual financial report for the school district. The technique of combining the balance sheets, the statements of revenues, expenses, and changes in retained earnings, and the statements of changes in financial position for all enterprise funds is illustrated by the following selected from the comprehensive annual financial report of the Klein Independent School District, for the fiscal year ended August 31, 1981:

KLEIN INDEPENDENT SCHOOL DISTRICT

Schedule E-1

ALL ENTERPRISE FUNDS
COMBINING BALANCE SHEET

August 31, 1981
With Comparative Totals for Fiscal Year 1980

	Food Service	Stadium Operating	Totals 1981	Totals 1980
Assets				
Current assets:				
Cash	$ 108,388	$ 709	$ 109,097	$ 76,997
Due from state government	—	—	—	35,871
Inventories	42,364	—	42,364	41,716
Prepaid expenses	—	3,368	3,368	—
Due from general fund	—	35,000	35,000	—
Total current assets	150,752	39,077	189,829	154,584
Fixed assets:				
Buildings	—	—	—	700,767
Furniture and equipment	998,193	43,945	1,042,138	778,215
Total fixed assets	998,193	43,945	1,042,138	1,478,982
Less: accumulated depreciation	140,674	19,327	160,001	176,399
Net fixed assets	857,519	24,618	882,137	1,302,583
Total assets	$1,008,271	$63,695	$1,071,966	$1,457,167
Liabilities and Fund Equity				
Liabilities:				
Salaries payable	$ —	$ —	$ —	$ 37,473
Accounts payable	—	—	—	18,311
Deferred revenue	—	15,882	15,882	—
Total liabilities	—	15,882	15.882	55,784
Fund equity:				
Contributed capital:				
From general fund	58,267	—	58,267	58,267
From capital projects fund	848,284	—	848,284	1,328,271
Retained earnings	101,720	47,813	149,533	14,845
Total liabilities and fund equity	$1,008,271	$63,695	$1,071,966	$1,457,167

See accompanying notes to financial statements

KLEIN INDEPENDENT SCHOOL DISTRICT

Schedule E-2

ALL ENTERPRISE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS

For the Fiscal Year Ended August 31, 1981
With Comparative Totals for 1980

	Food	Stadium	Totals	
	Service	Operating	1981	1980
Operating revenues:				
Sales/admissions/concessions	$1,639,812	$ 119,854	$1,759,666	$1,414,592
State reinbursements	362,825	—	362,825	338,741
Interest earnings	—	3,498	3,498	3,695
Other income	14,400	850	15,250	26,382
Total operating revenues	2,017,037	124,202	2,141,239	1,783,410
Operating expenses:				
Cost of sales	945,109	—	945,109	883,962
Payroll costs	765,665	—	765,665	659,550
Admissions paid to visiting teams	—	24,591	24,591	27,660
Contracted services	—	37,691	37,691	34,931
Repairs	692	3,173	3,865	2,268
Supplies	129,613	8,594	138,207	112,498
Travel/in service	5,020	26,940	31,960	17,280
Insurance	56,706	4,391	61,097	56,631
Fees and awards	5,323	7,111	12,434	—
Other expenses	2,329	—	2,329	—
Depreciation	49,910	4,145	54,055	46,754
Total operating expenses	1,960,367	116.636	2,077,003	1,841,534
Net income	56,670	7,566	64,236	(58,124)
Retained earnings (deficit) beginning of year	45,050	(30,205)	14,845	72,969
Adjustment—prior year depreciation	—	70,452	70,452	—
Retained earnings (deficit) end of year	$ 101,720	$ 47,813	$ 149,533	$ 14,845

See accompanying notes to financial statements

KLEIN INDEPENDENT SCHOOL DISTRICT

Schedule E-3

ALL ENTERPRISE FUNDS
COMBINING STATEMENT OF CHANGES IN FINANCIAL POSITION

Year Ending August 31, 1981
With Comparative Totals for Fiscal Year 1980

	Food Service	Stadium Operating	Totals	
			1981	1980
Sources of working capital:				
Operations:				
Net income	$ 56,670	$ 7,566	$ 64,236	$ 11,923
Items not requiring working capital—depreciation	49,910	4,145	54,055	46,754
Working capital provided	106,580	11,711	118,291	58,677
Uses of working capital:				
Net loss from operation	—	—	—	70,047
Acquisition of fixed assets	22,074	21,070	43,144	13,265
Working capital used	22,074	21,070	43,144	83,312
Net increase (decrease) in working capital	$ 84,506	$ (9,359)	$ 75,147	$ (24,635)
Elements of increase (decrease) in working capital:				
Cash	$ 63,945	$ (31,845)	$ 52,100	$ (17,049)
Due from state government	(35,871)	—	(35,871)	6,246
Accrued interest earnings	—	—	—	(266)
Prepaid expenses	—	3,368	3,368	—
Inventories	648	—	648	9,242
Due from general fund	—	35,000	35,000	—
Salaries payable	37,473	—	37,473	(4,497)
Deferred revenue	—	(15,882)	(15,882)	—
Accounts payable	18,311	—	18,311	(18,311)
Net increase (decrease) in working capital	$ 84,506	$ (9,359)	$ 75,147	$ (24,635)

See accompanying notes to financial statements

Chapter 16
Enterprise Funds

QUESTIONS

16-1. What are some common types of enterprise funds found within a school system?

16-2. What factors are involved in determining whether an activity is accounted for as a special revenue fund or an enterprise fund?

16-3. What is the purpose of using an enterprise fund?

16-4. What is the objective of an enterprise fund?

16-5. How are the plant assets or fixed assets of an enterprise fund financed?

16-6. How is budgetary control accomplished in an enterprise fund?

16-7. Assume the remodeling of a cafeteria is begun by a contractor during the current year and that upon completion, a percentage, 15%, is to be retained until the contractor's work has been inspected and accepted. What journal entries would be required for the following events:

A. The contractor submits his bill amounting to $100,000, the contract price; final inspection and acceptance has not been completed.
B. Payment is made to the contractor, withholding 15%.
C. Final inspection is satisfactorily completed and the board of education accepts the remodeling project. Payment is made.

16-8. The balance sheet of an enterprise fund for the past year included the following items in the fixed assets section:

Fixed assets:		
Building	$80,000	
Less: Allowance for depreciation-building	32,000	$ 48,000
Equipment	$70,000	
Less: Allowance for depreciation-equipment	7,000	63,000
Total fixed assets		$111,000

If the rate of depreciation is 5% per year, what entries would be required at the end of the current year?

16-9. How would the fixed assets section of the balance sheet appear after recording the entry in 16-8, above?

CASES AND PROBLEMS

16-1. The following is a trial balance of the Negaunee High School food service fund in the Negaunee School Dis trict at September 1, 19--, the start of the school year:

NEGAUNEE SCHOOL SYSTEM
Negaunee High School Food Service Fund
An Enterprise Fund
Trial Balance
September 1, 19....

	Debit	Credit
Cash	$ 25,000	
Investments	33,000	
Due from general fund	11,200	
Due from state government	3,473	
Due from federal government	8,900	
Inventories	15,000	
Equipment	75,000	
Accumulated depreciation – equipment		$ 19,000
Accounts payable		27,000
Due to general fund		1,120
Retained earnings		124,453
	$171,573	$171,573

The following transactions took place during the fiscal year ended August 3l, 19--:

A. Issued purchase orders for food amounting to $114,500.
B. Computed the amount due from federal government under the National Lunch Program to be $10,300.
C. Invoices accompanying food ordered in A, above, amounted to $112,000. (Use periodic inventory method.)
D. Cash sales to pupils amounted to $129,375.
E. Purchase orders for a walk-in cooler and other kitchen equipment were issued and amounted to $7,419.
F. Cash sales to adults amounted to $13,232.
G. Received interest on investments of $1,980.
H. Salaries amounting to $28,000 for the year were paid.
I. Cash contributions from local sources for the breakfast program amounted to $1,350.
J. Supplies expense for the year of $3,415 was paid in cash.
K. Received amount due from the state government.
L. Paid utility bills amounting to $2,712.
M. Paid $110,000 on account.
N. Paid the amount due to the general fund.

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O. Received items ordered in E, above, invoices were for $7,830.
P. Administrative expenses for the year were paid amounting to $3,040.
Q. Sold equipment costing $3,000 with accumulated depreciation of $2,395 for $800.
R. Miscellaneous expenses were paid which amounted to $709.

Additional information:

1. Ending inventories were determined to be $17,411.
2. Depreciation for the year on equipment was deter mined to be $4,000.

INSTRUCTIONS:

1. Record account balances as of September 1, 19--, in ledger accounts.
2. Journalize transaction data, adjusting and closing entries for the year.
3. Post to ledger accounts.
4. Prepare a post-closing trial balance.

16-2. Refer to problem 16-1 above, and prepare the following:

1. A statement of income and expense.
2. A balance sheet.
3. A statement of changes in retained earnings.
4. A statement of changes in financial position using the gross resources provided and applied concept.

16-3. The students and faculty of the New Hope High School publish a school newspaper called The Beacon. The following is a post-closing trial balance taken at July 1, 19--, the beginning of its fiscal year, and a trial balance taken at June 30, 19-1, the end of the fiscal period.

THE BEACON
New Hope High School
Trial Balance

	Trial Balance 7-1-....	Trial Balance 6-30-....+1
Cash in bank	$1,790	$ 2,234
Accounts receivable – local	1,912	2,548
Accounts receivable – national	1,429	2,397
Allowance for doubtful accounts	(109)	(125)
Prepaid insurance	32	12
Office furniture and equipment	760	760
Darkroom equipment	250	250
Photo equipment	690	690
Accumulated depreciation – furniture and equipment	(950)	(1,100)
Vouchers payable	(2,345)	(1,862)
Retained Earnings	(3,459)	(3,459)
Advertising income – local		(5,186)
Advertising income – national		(5,942)
Fee distribution income		(11,203)
Classified advertising income		(39)
Subscription income		(378)
Printing expense		14,501
Subscription mailing expense		367
Office supplies expense		541
Darkroom supplies		433
Bad debts expense		97
Insurance expense		169
Audit expense		225
Depreciation expense		150
Repairs and maintenance – photo equipment		173
Telephone and telegraph expense		24
Postage expense		113
Salary expense		3,423
Travel expense		187

The following is the budget for the period July 1, 19--, through June 30, 19-1.

THE BEACON
An Enterprise Fund
New Hope High School
Operating Budget
For the Period July 1, 19.... through June 30, 19....+1

Revenues	
Advertising income – local	$ 3,300
Advertising income – national	5,000
Fee distribution income	11,203
Classified advertising income	25
Subscription income	450
Total Revenues	$19,978
Expenditures	
Printing expense	$13,915
Subscription mailing expense	210
Office supplies expense	300
Darkroom supplies expense	150
Bad debts expense	97
Insurance expense	50
Audit expense	250
Depreciation expense	150
Repairs and maintenance – photo equipment	200
Telephone and telegraph expense	50
Postage expense	125
Salary expense	3,423
Travel expense	250
Total Expenditures	$19,170
Net Income	$ 808

INSTRUCTIONS:

From the preceding information, prepare:

1. An income and expense statement comparing actual and budget.
2. Comparative balance sheets as of June 30, 19-- and 1901.
3. A statement of changes in retained earnings.
4. A statement of changes in financial position.
5. Closing entries.

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INTERNAL SERVICES FUNDS

Boards of education frequently are faced with needs which require a decision either to secure goods or services from a source outside of the school system or to produce the goods or provide the services themselves. For instance, computer services can be provided by contracts with local or regional service centers or they can be furnished by the school system's buying or leasing and operating its own computer services department. Which method best serves the interests of the school system?

NATURE OF INTERNAL SERVICES FUNDS

The problem of computer services is easily handled from an administrative point-of-view if contracts are let to outside service center owners. In this event, contractual payments are handled through the general fund's expenditure account entitled "computer service". However, it may be found that the service can be provided more efficiently and economically if the school system buys or rents and operates its own computer services department. If this is decided, a separate self-balancing group of accounts known as internal services fund will make it possible to account for the costs of providing such a service.

The term internal services fund was adopted by the Governmental Accounting Standards Board in 1979 and is to be used in lieu of the former terms "intragovernmental services fund" and "working capital fund." The term internal service fund has been used by ASBO in its 1980 publication entitled "Certificate of Excellence in Financial Reporting by School Systems." This type of fund has been found useful to administrative officers and boards of education for many purposes such as the operation of a central stores department, a central printing service, a central maintenance department, and a central motor pool. In each of these areas of service, it will be noted that the goods provided or services rendered by any one of the internal services funds are restricted to organizational units composing the school system. No services are rendered by internal services funds for any person, organization or group outside the school system; if such services were rendered, the principles of accounting applicable to enterprise funds would be used.

Internal service funds are intended to be self-supporting but they are not intended to accumulate profits in the retained earnings account. An internal service fund's income consists of revenue from each of the school district's organizational units equal to the cost of goods provided or services rendered for it. Therefore, an internal service fund must account for all costs of goods provided or cost of services rendered for each of the organizational units it serves. It may add a small charge to create a reasonable balance in its retained earnings account for absorbing unforeseen costs or losses. By billing the organizational units it serves for the costs of services rendered, the internal service fund replenishes its capital, fund balance, or fund equity and maintains a reasonable balance in its retained earnings account.

CREATION OF AN INTERNAL SERVICE FUND

An internal service fund is created by the board of education to render certain kinds of internal services by transferring cash or other assets either from the general fund, a special revenue fund, a capital projects fund, an enterprise fund or from the general fixed assets group of accounts. The amount transferred to the internal service fund creates its contributed capital, a term used frequently in lieu of fund equity or fund balance. Cash in amounts needed to purchase fixed assets, materials and supplies, and to pay operating costs for a specified period of time can also be provided by sale of longterm bonds which are carried as long-term liabilities of the internal service fund. The capital of the internal service fund will be referred to as the internal service fund equity in order to be consistent with terminology used in all other funds.

Because the internal service fund equity is not to be depleted or increased, the fund ideally, operates without either a profit or loss. Since the internal service fund is to be maintained intact, this fund is said to be a non-expendable fund. Transfers from other funds could be permanent transfers without obligation to return the amount to the transferor or the amount may be considered a long-term liability until repaid.

OPERATION OF AN INTERNAL SERVICE FUND

As in the case of enterprise funds, fixed assets, acquired for use by the internal service fund to provide the goods or services for which the fund was created, are carried in the accounts of the internal service fund—not in the general fixed assets group of accounts. When materials are purchased or other assets are acquired for use by the internal service fund, asset accounts are created in the internal service fund for them.

Two different types of operations are handled through the use of internal service funds. The first type is a stores department type such as would be used by a school district in operating a central supply department. Advantages of a central supply department result from the use of a minimum number of administrative officers technically qualified to develop specifications, supervise issuance of bids, locate sources of supply most beneficial to the school district, etc. Other advantages may accrue through centralization of purchasing such as taking advantage of purchase discounts and maintaining a reasonable supply of materials on hand which could not be available through a decentralized system of purchasing, storage and distribution. Quantity discounts can also provide financial advantages from a centralized operation. When large quantities of supplies are purchased, stored, and then distributed upon proper request when needed, storage space requirements are minimized in each of the classroom buildings and offices. Use of Storage space in the central stores area may be maximized.

A second type of operation may be described as that of a service department. In operating this type of internal service fund, materials, labor, and other production costs may be incurred in converting certain materials into goods or commodities that can be used by the school district or that can be used to render a service to a unit of the school system. The operation of a central printing office, a central computer service department, and a central maintenance department are examples of services that may be provided by an internal service fund.

Internal service funds continue in operation as long as they serve a useful purpose for the school district. This type of fund may be identified as an internal administrative fund because it renders services only to organizational units within the jurisdiction of the school system. Charges made for services rendered by an internal service fund, although providing revenue to the internal service fund, do not provide revenue to the school district. Each of the funds using the services of an internal service fund, records expenditures for the goods or services ordered and received.

As internal service funds generate neither revenue nor expenses for the school system, some accountants believe that it is not necessary for a statement of changes in financial position to be prepared to show financial resources provided or applied through operation of the internal service fund. However, in addition to other ways, the financial position of the school district is changed by either creation of, addition to, reduction of, or elimination of an internal services fund. A statement of changes in financial position of each internal service fund provides complete information which, otherwise, would be unknown and could result in operations without the knowledge of the board of education.

ACCOUNTS OF AN INTERNAL SERVICE FUND

Internal service funds are complete financial entities in that each fund has its own self-balancing group of accounts composed of assets, liabilities, fund equity, revenue and expense accounts. As has been pointed out, an internal service fund is comparable to an enterprise fund in that the fixed assets used in its operation are carried in the accounts of the internal service fund instead of being accounted for through the general fixed assets group of accounts. As a result, accounts are also necessary to record depreciation of these assets in order to maintain the amount of the internal service fund equity intact. Account ing for depreciation of fixed assets in internal service funds is comparable to accounting for depreciation in enterprise funds.

Long-term liabilities may also be created by an internal service fund and may be reported in the long-term liabilities section of its balance sheet. Resources necessary to retire long-term liabilities may be provided by income from services rendered by an internal service fund.

Generally, it is not the practice of an internal service fund to prepare formal budgets. Instead, control or restriction of expenditures is accomplished through the organizational units ordering and using its services. All units of the school system using services of an internal service fund make provisions in their budgets for estimated expenditures for these services, thus total expenditures of internal service funds are restricted by the amount other funds can expend for services rendered by it. Since no formal budget is required of the internal service fund, no formal budgetary accounts are necessary. However, for management information and planning, informal budgets may supplement the formal accounting structure of an internal service fund.

COST OF GOODS SOLD ACCOUNTS FOR INTERNAL SERVICE FUNDS

As in the case of enterprise funds, internal service funds need to determine the cost of goods sold or the cost of services rendered. Inventory accounts are required for all goods purchased for the purpose of sale or conversion into goods or services to be sold. Both, the physical (or periodic) inventory method and perpetual inventory method are used by internal service funds. Accounting for cost of goods sold was discussed more completely in chapter 16 that dealt with enterprise funds.

ACCOUNTS FOR A CENTRAL MOTOR POOL SERVICE DEPARTMENT

An internal service fund established to provide transportation services can include accounts not only for operation of a fleet of busses, cars, trucks, and other motorized vehicles, but it may also include accounts to record the cost of the maintenance of them. An internal service fund can be used to account for services of a central automotive garage. The following accounts may be used in providing such a service:

Assets:
- Cash
- Due from general fund
- Vehicles
  - Allowance for depreciation of vehicles
- Central garage machinery and equipment
  - Allowance for depreciation for central garage machinery and equipment
- Inventory of repair parts
- Inventory of maintenance and operating supplies
- Prepaid insurance

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- Liabilities:
  - Accounts payable
- Fund equity:
  - Central motor pool fund contributed capital
  - Central motor pool fund retained earnings
- Revenue:
  - Income from billings
- Expense:
  - Salaries:
    - Supervisors salaries
    - Drivers salaries
    - Maintenance and other garage employee salaries
    - Clerks and other employee salaries
  - Employee benefits
  - Contracted services—public carriers
  - Depreciation expense—vehicles
  - Depreciation expense—Central garage machinery and equipment
  - Expired insurance
  - Repair parts used
  - Maintenance and operating supplies used
  - Rent expense
  - Miscellaneous expense
  - Heat, light and power expense

ILLUSTRATION OF TRANSACTIONS FOR CENTRAL MOTOR POOL

Assume that the school board creates an internal service fund to provide central motor pool services. All vehicles to be used by the school district and other motorized equipment such as lawn mowers, snow removal equipment, trucks, school busses, automobiles, etc., are to be maintained by the central motor pool department. Also assume that the following assets are transferred to the internal service fund: cash, $30,000; inventory of repair parts, $40,000; inventory of maintenance and operating supplies, $10,000; vehicles, $150,000; and central garage machinery and equipment, $70,000. The opening entry on the books of the internal service fund, central motor pool, is as follows:

NEW HOPE SCHOOL SYSTEM
Central Motor Pool Service Department
An Internal Service Fund
General Journal

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19--			
Jan. 1	Cash	$ 30,000	
	Inventory of repair parts	40,000	
	Inventory of maintenance and operating supplies	10,000	
	Vehicles	150,000	
	Central garage machinery and equipment	70,000	
	Central motor pool contributed capital		$300,000
	To record the opening entry.		

Assume that repair parts of $10,000 and operating supplies of $5,000 are purchased on open account. The following entry is made:

2	Inventory of repair parts	10,000	
	Inventory of maintenance and operating supplies	5,000	
	Accounts payable		15,000
	To record purchase of parts and supplies on open account.		

When gasoline, oil, tires, and tubes are requisitioned by mechanics for maintenance and operating purposes, the cost of the materials and supplies issued is recorded by the following entry:

3	Maintenance and operating supplies used	6,000	
	Inventory of maintenance and operating supplies		6,000
	To record cost of supplies issued.		

When repair parts are issued as requisitioned by mechanics, the cost of repair parts issued is recorded by the following entry:

4	Repair parts used	20,000	
	Inventory of repair parts		20,000
	To record cost of repair parts issued.		

Assume that insurance policies covering public liability, property damage, medical care, collision, fire, and theft are put into effect at an annual premium of $900. The entry is as follows:

5	Prepaid insurance	900	
	Cash		900
	To record premium payments to cover collision, fire, theft, medical care, public liability and property damage.		

Assume the salaries of $45,000 are paid as follows: supervisors, $7,000; drivers, $18,000; mechanics and other garage employees, $14,000; clerks, $6,000. The entry is recorded as follows:

6	Supervisors salaries	7,000	
	Drivers salaries	18,000	
	Mechanics and other garage employee salaries	14,000	
	Clerks and other employee salaries	6,000	
	Cash		45,000
	To transfer cash to central pay roll fund for salary expenses.		

Assume that heat, light, and power expenses were paid in the amount of $3,000. The following entry is made:

7	Heat, light and power	3,000	
	Cash		3,000
	To record payment of bills for heat, light and power.		

Assume that depreciation is estimated to be at the rate of 10 per cent. The following entry records the depreciation for the year:

8	Depreciation expense—vehicles	15,000	
	Depreciation expense—central garage machinery and equipment	7,000	
	Allowance for depreciation for vehicles		15,000
	Allowance for depreciation for central garage machinery and equipment		7,000
	To record annual depreciation.		

Assume that $600 of insurance expired during the year. The following entry records insurance expiration:

9	Expired insurance	600	
	Prepaid insurance		600
	To record expired insurance.		

Assume that billings for transportation services against the general fund amount to $100,000 and that $60,000 has been collected during the year. The following entry is made:

10	Due from general fund	100,000	
	Income from other funds		100,000
	To record billings for services rendered.		
11	Cash	60,000	
	Due from general fund		60,000
	To record collection of accounts receivable from the general fund.		

INTERNAL SERVICE FUND TRIAL BALANCE

A trial balance prepared from the accounts of the internal service fund entitled Central Motor Pool Service Department is as follows:

NEW HOPE SCHOOL DISTRICT
Central Motor Pool Service Department
An Internal Service Fund
Trial Balance
December 31, 19--

Cash	$ 41,100	
Due from general fund	40,000	
Inventory of repair parts	30,000	
Inventory of maintenance and operating supplies	9,000	
Vehicles	150,000	
Allowance for depreciation for vehicles		$ 15,000
Central garage machinery and equipment	70,000	
Allowance for depreciation for central garage machinery and equipment		7,000
Prepaid insurance	300	
Accounts payable		15,000
Central motor pool fund contributed capital		300,000
Income from other funds		100,000
Supervisors salaries	7,000	
Drivers salaries	18,000	
Mechanics and other garage employee salaries	14,000	
Clerks and other employee salaries	6,000	
Depreciation expense—vehicles	15,000	
Depreciation expense—central garage machinery and equipment	7,000	
Maintenance and operating supplies used	6,000	
Repair parts used	20,000	
Heat, light and power	3,000	
Expired insurance	600	
	$437,000	$437,000

FINANCIAL STATEMENTS OF AN INTERNAL SERVICE FUND

The balance sheet for the central motor pool service department appears as follows:

Exhibit A

NEW HOPE SCHOOL DISTRICT
Central Motor Pool Service Department
An Internal Service Fund
Balance Sheet
December 31, 19--

Assets		
Cash		$ 41,100
Due from general fund		40,000
Inventory of repair parts		30,000
Inventory of maintenance and operating supplies		9,000
Vehicles	$150,000	
Less: Allowance for depreciation for vehicles	15,000	135,000
Central garage machinery and equipment	$ 70,000	
Less: Allowance for depreciation for central garage machinery and equipment	7,000	63,000
Prepaid insurance		300
Total assets		$318,400
Liabilities and Fund Equity		
Liabilities:		
Accounts payable		$ 15,000
Fund Equity:		
Central motor pool fund contributed capital	$300,000	
Retained earnings, see Exhibit B	3,400	303,400
Total liabilities and fund equity		$318,400

The statement of revenue, expenses, and retained earnings for the central motor pool service department appears as follows:

Exhibit B

NEW HOPE SCHOOL DISTRICT
Central Motor Pool Service Department
An Internal Service Fund
Statement of Revenue, Expenses and Retained Earnings
For the year ended December 31, 19--

Revenue:		
Income from other funds		$100,000
Expenses:		
Supervisors salaries	$ 7,000	
Drivers salaries	18,000	
Mechanics and other garage employee salaries	14,000	
Clerks and other employee salaries	6,000	
Depreciation expense for vehicles	15,000	
Depreciation expense for central garage machinery and equipment	7,000	
Expired insurance	600	
Repair parts used	20,000	
Maintenance and operating supplies used	6,000	
Heat, light and power	3,000	96,600
Net income		$ 3,400
Retained earnings, January 1, 19--		—0—
Retained earnings, December 31, 19--		$ 3,400

Reference is made to chapter 9 where the section entitled "Accompanying Financial Statements" presents GASB's required financial statements for preparation of a comprehensive annual financial report.

ACCOUNTS FOR CENTRAL MAINTENANCE DEPARTMENT

The operation of a central, instead of a decentralized, maintenance department as an internal service fund has many advantages to a school system. Among those advantages are:

1. Cost of equipment, machinery, and tools required to perform services is minimized.
2. Central storage of materials, supplies, machinery, equipment, and tools minimizes storage space needs at the various building sites.
3. A staff can be employed at a steady level and time of the staff can be more fully used.
4. Responsibility for efficient operation of the central maintenance department can be placed in one organizational unit.

JOB ORDER COST ACCOUNTING

Using the structure of an internal service fund for the operation of a central maintenance department, it becomes necessary that the cost of each maintenance job be controlled through an accounting procedure referred to as job order cost accounting. This procedure is illustrated as follows:

Asset accounts consist of cash, due from other funds, materials inventory, work-in-process inventory, machinery and equipment, allowance for depreciation of machinery and equipment, and others. Other than the addition of a new controlling account for work-in-process in the general ledger of the internal service fund, the operation of the asset accounts is much the same as has been illustrated.

Liability accounts consist of vouchers payable, salaries payable, and others. The operation of the liability accounts is similar to the operation of liability accounts illustrated. The fund equity account is the original capital invested in the internal service fund which is to be retained intact and, theoretically, is not to be increased or depleted. Net income or net loss for each period is closed into the retained earnings account. A credit balance in the retained earnings account indicates that to date, earnings have exceeded losses from operation. A debit balance in the retained earnings account indicates that a loss has been sustained, expenses have exceeded income.

A major difference occurs in accounting for an internal service fund when it uses a job order cost procedure. This is the first point in governmental accounting or accounting for school systems where cost accounting principles are applied on a basis consistent with cost accounting principles applied to business enterprises. This requires the use of a work-in-process inventory account in addition to expense accounts.

Basically, expense accounts are debited when an expense creates a liability account or when cash is paid. But, instead of closing expense accounts to the revenue and expense summary, they are debited to a work-in-process account. Work in process is an asset account. When a job is completed it is billed to the organization unit ordering and receiving the service and the cost of the job is recorded. Cost of jobs completed is an expense account which is closed to the revenue and expense summary account at the end of the fiscal period.

Assume that the following balances are accumulated in the expenditure accounts of an internal service fund created to provide central maintenance services and that they are properly chargeable to various jobs as indicated.

	Total	Job No. 1	Job No. 2	Job. No. 3
Materials used	$36,000	$18,000	$12,000	$ 6,000
Salaries	40,000	15,000	18,000	7,000
Contracted services	2,000			2,000
Depreciation expense	8,000	3,000	4,000	1,000
Expired insurance	600	300	200	100
Rent	1,200	600	400	200
Heat, light and power	2,200	1,000	800	400
Total	$90,000	$37,900	$35,400	$16,700

In the operation of an internal service fund of this type, all costs of operation must be distributed to the jobs serviced. Records must be maintained that will permit a reasonable and logical distribution of costs to each job. Materials are distributed directly, based upon material requisitions. Salaries are distributed directly on the basis of time reports. Contracted services are distributed on the basis of service to the particular job. Depreciation is distributed on some reasonable basis, either units of service, hours of service, or other. Costs such as insurance, rent, heat, light, and power may be distributed on the basis of raw materials used, labor costs, production time, or some other basis.

In the illustrations of other funds, the expenditure accounts have been closed into the revenue and expenditure summary; however, in the case of a fund such as this, the expenditure accounts are closed by charging each job for its apportioned costs, as illustrated in the following entry:

Work in process-job number 1	37,900	
Work in process-job number 2	35,400	
Work in process-job number 3	16,700	
Material used		36,000
Salaries		40,000
Contracted services		2,000
Depreciation expense		8,000
Expired insurance		600
Rent		1,200
Heat, light and power		2,200
To close expense accounts into work in process accounts.		

Assume further that jobs 1 and 2 were completed during the period. The jobs would be billed to the fund ordering the service as illustrated in the following entry:

Due from other funds	73,300	
Work in process-job number 1		37,900
Work in process-job number 2		35,400
To bill other funds for services rendered.		

Job order cost sheets must be maintained for each job in order that all costs applicable to the job can be distributed on a consistent and reasonable basis. This illustration does not provide for billing other funds for a price in excess of cost, because no profit should result from the operation of such a department. However, it is essential that all costs be recorded and recovered through billing for services rendered; otherwise, the amount of the non-expendable capital will be depleted.

APPLICATION OF A PRE-DETERMINED OVERHEAD RATE TO WORK IN PROCESS

In the preceding illustration, billings to funds using services of the internal service fund were postponed until all costs were known. In actuality, many costs of operating a service fund of this kind may not be determinable until the end of the fiscal year. Funds using services of an internal service fund should know, as nearly as possible, the cost of goods or services when received. To accomplish this internal management purpose, an overhead rate is used based upon prior experience, but the rate at best is an estimate.

Assume that the New Hope School System maintained a central maintenance fund, operated on the concept of an internal service fund, and that its trial balance at January 1, 19-- was as follows:

NEW HOPE SCHOOL DISTRICT
Central Maintenance Fund
An Internal Service Fund
Trial Balance
January 2, 19-

Cash	$ 4,020	
Stores inventory	38,080	
Due from other funds	3,860	
Equipment	8,500	
Accumulated depreciation-equipment		$ 2,550
Vouchers payable		7,640
Advance from general fund		42,300
Retained earnings		1,970
	$54,460	$54,460

The following transactions, in summary form, occurred during the year:

1.	Stores inventory	600,000	
	Vouchers payable		600,000
	To record purchase of stores at invoice price during year on account.		
2.	Work in process—job #1	15,000	
	Stores inventory		15,000
	To record requisition of stores for job #1.		
3.	Work in process—job #1	40,000	
	Salaries payable		40,000
	To record time cards charged to job #1.		
4.	Expenditures	285,000	
	Vouchers payable		285,000
	To record expenditures during year.		
5.	Work in process—job #2	100,000	
	Work in process—job #3	465,000	
	Stores inventory		565,000
	To record requisition of stores for jobs #2 and #3.		
6.	Work in process—job #2	34,000	
	Work in process—job #3	76,000	
	Salaries payable		110,000
	To record time and charges for direct labor applied to jobs #2 and #3.		
7.	Work in process—job #3	232,500	
	Overhead applied		232,500
	To record estimated cost of overhead expenses chargeable to job #3 upon completion. Estimated rate of overhead is 50% of stores requisitioned for the job.		
8.	Due from other funds	773,500	
	Work in process—job #3		773,500
	To close job #3 and charge it to appropriate fund.		
9.	Cash	775,360	
	Due from other funds		775,360
	To record collections from other funds.		
10.	Salaries payable	120,000	
	Vouchers payable	655,640	
	Cash		775,640
	To record total cash payments to central payroll fund for salaries and payment of vouchers during year.		
11.	Work in process—job #1	7,500	
	Work in process—job #2	50,000	
	Overhead applied		57,500
	To charge jobs in process with estimated cost of overhead expenses chargeable at the estimated rate of 50% of stores requisitioned.		
12.	Expenditures	1,275	
	Accumulated for depreciation—equipment		1,275
	To record estimated depreciation on equipment for the year.		

A trial balance for the central maintenance fund can be prepared at this time. It would appear as follows:

NEW HOPE SCHOOL DISTRICT
Central Maintenance Fund
An Internal Service Fund
Trial Balance
December 31, 19-

Cash	$ 3,740	
Stores inventory	58,080	
Due from other funds	2,000	
Work in process-job number 1	62,500	
Work in process-job number 2	184,000	
Equipment	8,500	
Allowance for depreciation-equipment		$ 3,825
Salaries payable		30,000
Vouchers payable		237,000
Advance from general fund		42,300
Retained earnings		1,970
Overhead applied		290,000
Expenditure, control	286,275	
Total	$605,095	$605,095

Subsidiary ledger accounts would be maintained for the expenditures control account in the general ledger of the central maintenance fund. By applying an overhead rate based on past experience, it is possible to estimate rather closely the amount of overhead that should be charged to each job as it is completed during the year. At the end of the year a variance will exist, in all probability, between the amount of overhead applied and the actual amount of expenditures. Both temporary accounts should be closed at the end of the period. The closing entry in the above example would be:

Overhead applied	290,000	
Expenditures, control		286,275
Retained earnings		3,725
To close the temporary accounts and to record the variance between over head charged and actual expenditures.		

The balance of the central maintenance fund equity account will reflect the amount by which other funds have been charged in excess of actual expenditures or the deficit that exists in the fund as a result of charging less for overhead than actual expenditures. Theoretically, the fund equity account should be at zero because the fund is not intended to operate at a profit or to suffer a loss.

THE STORES DEPARTMENT

An internal service fund is particularly advantageous to a school system in the operation of a central stores department. The stores department operates to provide certain types of equipment and supplies to all the organizational units composing the school system. Examples of equipment and supplies that may be handled through an internal service fund are:

Office supplies
Operating supplies
Repair and maintenance supplies
Equipment:
  Books
  Fire equipment
  Films
  Furniture
  Machinery and Equipment

Classification of inventories for the internal service fund in the case of a stores department is primarily for control purposes in the purchasing, storing, and issuing process. As supplies and equipment are requisitioned by the various funds, expenditure accounts will record the classification within the other fund.

ILLUSTRATION OF STORES DEPARTMENT TRANSACTIONS

Assume that a stores department is established by a transfer of $7,000 from the general fund to cover its operation. The entry to record creation of the internal service fund is:

NEW HOPE SCHOOL SYSTEM
Stores Department
(An Internal Service Fund)
General Journal

Page 1

19--			
Jan. 1	Cash	7,000	
	Store department fund equity		7,000
	To record establish ment of an internal service fund to provide services of a stores department.		

Assume that orders are placed for operating supplies in the amount of $5,000. The entry to record the purchase is as follows:

2	Operating supplies	5,000	
	Accounts payable		5,000
	To record purchase of operating supplies on account.		

Assume that payment of $4,000 is made on account, the following entry is made:

3	Accounts payable	5,000	
	Cash		5,000
	To record payment on account.		

When supplies are issued upon proper requisition, an entry is made to record issuance of supplies as follows:

4	Due from other funds	3,000	
	Operating supplies		3,000
	To record issuance of operating supplies to other funds as cost.		

When cash is collected, the following entry is made:

5	Cash	2,500	
	Due from other funds		2,500
	To record collection of cash from other funds.		

At the end of the accounting period, after all transactions have been recorded and posted, a trial balance is taken. From the trial balance, financial statements are prepared through the use of a worksheet.

Internal service funds are used for internal control and administration purposes rather than to record revenue from outside sources. It is necessary that financial statements be prepared for each internal service fund which consist of a balance sheet, a statement of income and expense, a statement of retained earnings and a statement of changes in financial position. These statements are combined with financial statements of all other internal service funds maintained by the school system in order to provide a complete financial picture of the internal service funds of the school system.

YEAR-END REPORTING FORMAT, INTERNAL SERVICE FUNDS

The following illustration of combining statement of departmental revenues and expenses, internal services fund, for the years ended June 30, 1981 and 1980, is taken from the comprehensive annual financial report, Charlotte/Mecklenburg Board of Education, Charlotte, North Carolina, for the fiscal year ended June 30, 1981:

INTERNAL SERVICES FUND

The Internal Services Fund accounts for operational costs of four departments or programs that provide services for the schools and divisions of the system. When services are rendered charges are made to the users and revenue is accumulated in the Internal Services Fund to cover cost of operations.

The Maintenance Department provides labor, materials and equipment for repairs and maintenance throughout the school system. The Data Processing Center provides computer services for the members of the school system. The Instructional Design Center provides printing, graphic arts and audio-visual production. The Risk Management Program which was established at June 30, 1980, provides insurance coverage of all types for the school system.

The accounts of the Internal Services Fund are maintained on the accrual basis of accounting, under which revenues are recognized in the period in which they are earned and become measurable, and expenses are recognized in the period incurred, if measurable.

CHARLOTTE-MECKLENBURG BOARD OF EDUCATION

Combining Statement of Departmental Revenues and Expenses
Internal Services Fund
For the Years Ended June 30, 1981 and 1980

	Maintenance Department	Data Processing Department	Instructional Design Center	Risk Management	Total	
					1981	1980
REVENUES:						
Charges for Services	$6,619,607	$661,777	$381,216	$703,657	$8,366,257	$7,395,247
Other			12,613	51,538	64,151	100,957
Total Revenues	6,619,607	661,777	393,829	755,195	8,430,408	7,496,204
EXPENSES:						
Salaries	3,435,285	243,727	181,870		3,860,882	3,486,661
Employee Benefits	669,685	44,646	32,503		746,834	624,431
Materials and Supplies	1,807,391	13,901	118,759		1,940,051	1,757,031
Utilities	46,858				46,858	43,756
Depreciation	355,848		22,477		378,325	314,069
Contracted Services	149,497	220,058	15,959		385,514	970,544
Equipment Rental		111,676	13,683		125,359	94,464
Insurance Premiums				486,054	486,054	
Losses and Claims:						
Fire				62,886	62,886	
Vandalism and Theft				104,093	104,093	
Other	84,324	2,315			86,639	178,332
Total Expenses	6,548,888	636,323	385,251	653,033	8,223,495	7,469,308
NET INCOME	$ 70,719	$ 25,454	$ 8,578	$102,162	$ 206,913	$ 26,896

The following is taken from the Salt Lake City School District, Salt Lake City, Utah, comprehensive annual financial report for the year ending June 30, 1981, and describes the internal service funds used:

INTERNAL SERVICE FUNDS
June 30, 1981

Warehouse Fund—To account for services provided to departments and schools in the district by the central warehousing system. Such costs are recovered by charging 11% more than the invoice cost for items distributed through the warehouse.

Printing and Graphics Fund—To account for printing services provided to departments and schools in the district by the district print shop. Costs are recovered by charges to user departments and schools.

Audio-Visual Repair Lab Fund—To account for repair services provided by the lab at West High School to the various departments and schools of the district.

The internal service funds combining balance sheet from the same financial report of the Salt Lake City School District follows:

INTERNAL SERVICE FUNDS
Combining Balance Sheet

June 30, 1981
With Comparative Totals for June 30, 1980

	Warehouse	Printing/ Graphics	Audio-Visual Repair Lab	Totals 1981	Totals 1980
ASSETS					
Current assets:					
Cash in bank	$ —	$ 15,269	$ —	$ 15,269	$ 36,869
Accounts receivable—local	—	—	61	61	—
Supply inventory	—	11,187	40,267	51,454	46,979
Prepaid expenses	—	—	1,198	1,198	332
	—	26,456	41,526	67,982	84,180
Fixed assets:					
Equipment	47,966	109,092	39,137	196,195	150,320
Less accumulated depreciation (Note 8)	(42,929)	(63,081)	(26,459)	(132,469)	(96,682)
	5,037	46,011	12,678	63,726	53,638
Total Assets	$ 5,037	$ 72,467	$ 54,204	$131,708	$137,818
LIABILITIES AND RETAINED EARNINGS					
Current liabilities:					
Accounts payable	$ —	$ 198	$ 1,383	$ 1,581	$ 178
Due to Maintenance and Operation Fund	33,851	—	44,757	78,608	35,466
Total Liabilities	33,851	198	46,140	80,189	35,644
Fund equity:					
Contributions of equipment from other funds	6,430	62,027	13,526	81,983	75,553
Retained Earnings (deficit)	(35,244)	10,242	(5,462)	(30,464)	26,621
Total Fund Equity	(28,814)	72,269	8,064	51,519	102,174
Total Liabilities and Fund Equity	$ 5,037	$ 72,467	$ 54,204	$131,708	$137,818

The combining statement of revenue, expenses, and changes in retained earnings for the internal service funds from the Salt Lake City School District's financial report is as follows:

INTERNAL SERVICE FUNDS
Combining Statement of Revenue, Expenses, and Changes
In Retained Earnings

Year Ended June 30, 1981
With Comparative Totals for Year Ended June 30, 1980

	Warehouse	Printing/ Graphics	Audio-Visual Repair Lab	Totals 1981	Totals 1980
Operating Revenue					
From services	$218,727	$107,217	$120,043	$445,987	$330,805
Operating Expenses:					
Salaries	179,532	74,213	112,761	366,506	239,655
Materials	7,361	30,383	11,270	49,014	45,088
Fringe benefits	12,048	4,489	6,321	22,858	13,920
Utilities	24,613	—	—	24,613	13,798
Contracted services	10,572	5,727	—	16,299	12,303
Depreciation	1,893	6,937	4,156	12,986	16,350
Other costs	7,932	1,004	1,860	10,796	8,498
Total Operating Expenses	243,951	122,753	136,368	503,072	349,612
Net Income (Loss)	(25,224)	(15,536)	(16,325)	(57,085)	(18,807)
Retained Earnings (Deficit)—July 1	(10,020)	25,778	10,863	26,621	45,428
Retained Earnings (Deficit)—June 30	$ (35,244)	$ 10,242	$ (5,462)	$ (30,464)	$ 26,621

INTERNAL SERVICE FUNDS

Combining Statement of Changes in Financial Position

Year Ended June 30, 1981
With Comparative Totals for the Year Ended June 30, 1980

	Warehouse	Printing/ Graphics	Audio-Visual Repair Lab	Totals 1981	Totals 1980
Sources of working capital:					
Revenue from services	$218,727	$107,217	$120,043	$445,987	$330,805
Items not requiring current outlay of funds—depreciation	1,893	6,937	4,156	12,986	16,350
Decrease in working capital	23,831	20,244	16,668	60,743	13,308
Total	$244,451	$134,398	$140,867	$519,716	$360,463
Uses of working capital:					
Expenses	$243,951	$122,753	$136,368	$503,072	$349,612
Equipment purchased	500	11,645	4,499	16,644	121
Increase in working capital	—	—	—	—	10,730
Total	$244,451	$134,398	$140,867	$519,716	$360,463
Elements of increase (decrease) in working capital:					
Cash	$ —	$ (21,600)	$ —	$ (21,600)	$ 9,690
Accounts receivable	—	—	61	61	(55)
Inventory	—	1,886	2,589	4,475	2,389
Prepaid expenses	—	(332)	1,198	866	(478)
Accounts payable	76	(198)	(1,281)	(1,403)	(178)
Due to other funds	(23,907)	—	(19,235)	(43,142)	(14,656)
Contributions of equipment from other funds	—	—	—	—	710
Total	$ (23,831)	$ (20,244)	$(16,668)	$ (60,743)	$ (2,578)

Chapter 17
Internal Service Funds

QUESTIONS

17-1. Why is an internal service fund referred to as a non-expendable fund? Explain.

17-2. What two types of transactions of a school system are best handled through internal service fund accounting principles?

17-3. What type of cost accounting is most useful to a centralized maintenance department?

17-4. Are budgetary accounts used in internal service funds? If not, why?

17-5. A school bus is purchased for $10,000 and has an estimated useful life of 8 years at which time it is estimated that the bus will have a scrap value of $2,000. What is the amount of annual depreciation computed on the straight line basis?

17-6. If the school bus in question 17-5 had an estimated useful life of 80,000 miles, what would be the depreciation expense in the second year if the bus traveled 12,000 miles?

17-7. What journal entries would be made in recording depreciation computed in questions 17-5 and 17-6?

17-8. What is the book value of an asset?

17-9. Assume that a machine is sold for $2,000. Its original cost was $8,000 and accumulated depreciation to the date of sale is $5,400. Is a gain or loss involved? If so, how much? What entry would be made to record the trans-action?

17-10. What are two major advantages of operating a central maintenance department of a school system rather than a decentralized maintenance department?

17-11. Is it necessary to prepare a statement of changes in financial position for internal service funds? If so, why? If not, why?

17-12. Why is recording depreciation necessary in internal service funds?

CASES AND PROBLEMS

17-1. The Shearing School System operates its supply department as an internal service fund. Below is a trial balance as of December 31, 19--.

SHEARING SCHOOL SYSTEM
Supply Department
Trial Balance
December 31, 19--

Cash	$ 63,000	
Office fixtures	27,000	
Accumulated depreciation, office fixtures		$ 5,000
Inventory of books	15,000	
Inventory of supplies	10,000	
Accounts payable		8,000
Supply department fund equity		114,000
Sales		47,000
Purchases of books and supplies	42,000	
Manager's salary	6,000	
Clerks' salaries	7,000	
Fire insurance	1,500	
Depreciation expense on office fixtures	500	
Heat and light	2,000	
	$174,000	$174,000
Inventory taken on December 31 shows the following:		
Book inventory	$ 30,000	
Supplies inventory	17,000	

INSTRUCTIONS:

1. Prepare a statement of revenues, expenses and retained earnings for the year ended December 31, 19--.
2. Prepare a balance sheet as of December 31, 19--.

17-2. On July 1, 19--, the board of education of the Dickinson School District created an internal service fund to provide pupil transportation services. To establish this fund, the following were transferred to the school district's Pupil Transportation Service Department.

Cash	$200,000
Transportation vehicles	240,000
Maintenance equipment	60,000
Maintenance and operating supplies	50,000
Prepaid rent, garage (July 1 Dec. 31)	3,000

During the month of July, the following transactions occurred:

July 2 Purchased repair parts on account, $10,000.
4 Maintenance and operating supplies requisitioned by mechanics, $1,000.
5 Repair parts requisitioned by mechanics, $8,000.
10 Purchased additional repair parts on account, $25,000.
12 Payment of transportation insurance premium for year beginning July 1, $6,000.
12 Payment on account for repair parts purchased July 2.
15 Purchased maintenance and operating supplies on account, $10,000.
20 Payment on account for repair parts purchased July 10.
30 Paid drivers salaries, $5,000.
Paid maintenance salaries, $2,000.
Paid heat, light and power bills, $1,500.

Depreciation on transportation vehicles and maintenance equipment is calculated on a straight-line method. These assets have an estimated life of ten years.

INSTRUCTIONS:

1. Prepare the opening entry on the books of the internal service fund and record the transactions for July in general journal form.
2. Prepare a trial balance as of July 31, 19--.

17-3. The Merrill School System has a central maintenance department which operates as an internal service fund. During the year the following expense accounts were charged as indicated:

Raw materials used	$30,000
Maintenance supplies used	15,000
Maintenance salaries	40,000
Depreciation expense	8,500
Rent expense	25,500
Heat, light and power	17,500

These expenses are allocable to four jobs-in-process during the year as follows:

	Job #1	Job #2	Job #3	Job #4
Raw materials used	5,000	11,500	4,500	9,000
Maintenance supplies used	3,000	—	8,500	3,500
Maintenance supplies	25,000	2,500	1,500	11,000
Depreciation expense	2,000	1,000	3,250	2,250
Rent expense	4,000	15,000	2,000	4,500
Heat, light and power	5,500	6,000	5,000	1,000

INSTRUCTIONS:

1. Close the expense accounts into the work-in process accounts.
2. Record the entry necessary upon completion of jobs 1, 3 and 4.

17-4. The Hopper School District operates a central machine shop through the use of accounting principles applicable to internal service funds. The machine shop does maintenance and repair work for organizational units within the school district, the cost of each job being determined through the use of job order cost accounting. Each job is numbered and all costs that apply directly to a job are charged to it. Indirect costs are recorded in a controlling account and in subsidiary ledger accounts during the month. At the end of each month the indirect costs are charged to the jobs served during the month on the basis of labor cost charged to the job during the month. The following accounts appear in the central machine shop fund as of December 1, 19--:

Cash		$ 6,000	
Due from other funds		6,500	
Completed job order number 365		550	
Work in process:			
Job order number 367	$40		
Job order number 368	90	130	
Supplies		1,500	
Repair parts		4,600	
Machinery and equipment		40,000	
Accumulated depreciation			$ 6,500
Accounts payable			2,780
Central machine shop fund equity			50,000
		$59,280	$59,280

During the month of December, the following transactions occurred:

A. Purchased additional repair parts for $2,600 on account.
B. Completed job order number 365 was billed to Smith High School.
C. Received properly authorized job order number 369 for certain work for the Central Printing Department. Requisitioned $80 of supplies and $250 of repair parts to initiate the job order.
D. Issued additional repair parts for job 367, $40; job 368, $240; and job 369, $18.
E. Collected $3,000 from accounts due from other funds.
F. Paid rent for month on building, $100.
G. Paid electric bill, $36.
H. Received bill from Central Heating Plant for December heat, $60, which was paid immediately.
I. Supplies required for operating the Central Machine Shop for the

month of December were requisitioned from the supply room and billed at $30.

J. Salaries paid during the month were as follows:

Chargeable to job no. 367	$120
Chargeable to job no. 368	160
Chargeable to job no. 369	350

K. Additional repair parts requisitioned as follows: job no. 367, $400; job no. 369, $180.

L. Additional supplies requisitioned as follows: job no. 368, $200; job no. 369, $75.

M. Recorded depreciation of machinery and equipment for month, $24.

N. Distributed all indirect costs to jobs 367, 368, and 369 on the basis of direct labor cost.

O. Job 368 was completed during the month. At the end of the month after applying indirect cost to this job, it was billed to the Jones High School for costs incurred.

INSTRUCTIONS:

1. Record account balances as of December 31.
2. Journalize the transactions that occurred during December, 19--, and post to "T" accounts.
3. Prepare a trial balance as of December 31, 19--.

Section 2

Part 4

FIDUCIARY TYPE FUNDS

TRUST FUNDS
AGENCY FUNDS

The board of education serves as trustee when it holds assets for others and makes management decisions about their use. The principal amount of a trust fund may be either expendable or non-expendable.

The board of education serves as an agent when it holds assets of others but does not have decision-making power about how the assets are to be used.

18

TRUST FUNDS EXPENDABLE TRUST FUNDS AND NON-EXPENDABLE TRUST FUNDS

Many school systems receive special sums of money which are to be used for certain purposes beneficial to the school system. Such money may be subject to restrictions as defined by a trust agreement between the unit and the donor. Because of the special provisions contained in a trust agreement, accounting principles have been developed which apply to analyzing, recording, and reporting transactions originating from such trust agreements.

UNDEVELOPED SOURCES OF FINANCIAL AID TO SCHOOLS

Grants to local school systems can come from private sources as well as from public sources. Local industries may be interested in developing certain career or vocational areas or they may be interested in making a donation to assist in meeting unusual local economic situations. Groups and individuals interested in certain areas of education may be willing and able to contribute large sums of money to provide special aid and facilities for special needs.

The board of education can attract and encourage grants to a school district by use of accounting and business practices which develop confidence in the financial operations of the school district and which safeguard assets contributed for special purposes. Accounting principles applicable to expendable and non-expendable trust funds provide the basis upon which such resources can be safeguarded and attracted. Hospitals have made significant advances in scientific and technological services through contributions, gifts, and bequests for special purposes and school systems can make similar advances in education.

NATURE OF TRUST FUNDS

The amount of money or other assets contributed to a trust fund forms the trust fund's equity. Instead of trust fund equity, the term trust fund principal frequently is used to identify the amount of the original contribution. According to the trust agreement, the principal amount frequently is to be retained intact during the period of time the agreement remains in effect. At the expiration of the period of time designated in the trust agreement, ways to dispose of the principal amount are prescribed by the agreement.

In order to retain the amount of the trust principal intact and at the same time to permit it to produce an income which may be used for the benefit of the school system, money in the fund may be invested in certain kinds of income producing assets prescribed by the trust agreement. Two types of trust funds exist. One type is a non-expendable trust and the other is an expendable trust. Both are discussed and illustrated in this chapter.

NON-EXPENDABLE TRUST FUNDS

A non-expendable trust fund is created to account for money and/or property received by a school system, the principal amount of which is to be retained intact, the income of which is restricted by a trust agreement. If permitted by the trust agreement, the money received may be invested in certain properties such as land, buildings, stock certificates, corporate or governmental bonds, promissory notes, etc.

Because of the restrictions placed upon money and property received through a trust agreement, it has been found that the provisions of a trust can be more effectively carried out and that administration of a trust agreement can be more clearly defined by the use of a separate group of self-balancing accounts operating as a non-expendable trust fund. The problem of the school board, acting as trustee for the fund, is to establish accounting procedures for analyzing, recording, and reporting financial transactions in strict keeping with the terms of the trust agreement.

A non-expendable trust fund may be either a perpetual trust or a limited-life trust. A perpetual trust is one which, by its terms, is to continue in operation as long as the principal amount is retained intact or as long as the school system continues its operations. A trust agreement should prescribe the way by which assets of the fund are to be disposed of in the event of discontinuance or consolidation of the school system. A limited-life trust is one which continues its operation for a time specified by the trust agreement. At the expiration of the time prescribed, the non-expendable trust becomes an expendable trust, thereby permitting the assets of the fund to be used, distributed, or expended for the purposes prescribed by the trust agreement.

RELATION OF NON-EXPENDABLE TRUST FUNDS TO THE BUDGET

A non-expendable trust fund is created by action of the board of education only. The board can authorize a transfer of money or property to a non-expendable trust fund from the school system's other funds or account groups or it can authorize the non-expendable trust fund to accept a gift or bequest. Once the amount of the non-expendable fund principal is received, no other money should be required in order to keep the fund's principal intact, as no disbursements are made for operating expenses.

Since a non-expendable trust fund's principal is not to be depleted, there is no need that its operation be included in the formal budgetary processes. Therefore, budgetary accounts are not used in non-expendable trust funds. However, reports of financial position are required in order that administrative officers, board members, donors and others interested in the trust fund may be kept informed.

FINANCIAL STATEMENTS OF NON-EXPENDABLE TRUST FUNDS

The financial statements of a non-expendable trust fund are: the balance sheet, statement of revenue and expense, statement of change in fund principal, and statement of change in financial position. The financial statements of the school system are not complete until the financial statements of each non-expendable trust funds are combined and included in the comprehensive financial report. Reference is made to chapter 9 which discusses ways of presenting financial reports for the comprehensive annual financial report.

RELATION OF NON-EXPENDABLE TRUST FUNDS TO OTHER FUNDS

As the principal amount of money in a non-expendable trust fund can be invested in specified kinds of income producing properties, the income from such investments, generally, is expendable under the terms of the trust agreement. Accounting for such income is accomplished through the use of the expendable trust fund concept.

Non-expendable trust funds work in direct relationship with expendable trust funds but they are separated for accounting purposes to avoid the possibility of commingling assets which could, otherwise, result in a depletion of the non-expendable trust fund principal or an error in distribution of income from investments.

At the expiration of the life of a non-expendable trust fund, the assets composing the principal may be transferred to another of the school system's funds according to the terms of the trust or they may be disposed of in any other manner specified by the terms of the trust agreement. In cases where such assets are transferred to another fund, it is important that transactions of the fund receiving such assets be coordinated with the fund disposing of the assets, thereby leaving an audit trail by which all parties can be informed about the disposition of the non-expendable trust fund's assets.

If a trust fund agreement should permit, it would be possible for a loan to be made from the assets of a non-expendable trust fund to another fund. In such a case, however, the trust agreement would specify that a promissory note be executed bearing a certain rate of interest. Otherwise, a trust fund could be diverted from the purpose it was intended to serve. Trust funds provide a source of money which could easily be mishandled by administrative officers unless the accounting system records and reports, as an integral part of the financial structure, loans from one fund to another.

TYPICAL TRANSACTIONS OF A NON-EXPENDABLE TRUST FUND

Assume that a citizen donates $50,000 to a school system to be used as a non-expendable trust fund principal, income from the investments of which is to purchase library books of a specified kind. At the expiration of thirty years, the principal amount of the non-expendable trust is to be transferred to a building fund to be operated as a capital projects fund. The entry to record the receipt of the money is as follows:

NEW HOPE SCHOOL SYSTEM
Non-Expendable Trust Fund
General Journal

Page 1

19--			
May 1	Cash	50,000	
	Non-expendable trust fund principal		50,000
	To record receipt of trust fund cash.		

The following entry illustrates the purchase of investments:

16	Investments	30,000	
	Cash		30,000
	To record purchase of investments.		

PREMIUM ON INVESTMENTS

In some cases, to make an investment in bonds, a premium— which is a price in excess of the maturity value of the bonds — has to be paid. As a result, the investment at maturity will produce an amount less than its original cost. In the case of a non-expendable trust fund, the question arises as to how can this transaction be handled to prevent depletion of the principal of the non-expendable trust fund as a result of the loss of the difference between cost of the bonds and their maturity value. The accounting procedure used is referred to as amortizing the bond premium. This is accomplished by setting up an asset account in the non-expendable trust fund to show a claim against the expendable fund receiving the interest on the bonds for the amount of the premium, which is computed by subtracting the maturity value from the cost. Periodically, as interest is received by the expendable fund, a portion of the cash is transferred to the non-expendable fund in payment of the premium. By the maturity date of the bonds, the non-expendable fund's claim against the expendable fund will have been fully recovered and only the amount of the maturity value of the bonds will remain in the investment account.

The following illustration shows how the premium is recorded and recovered by a non-expendable trust fund over the life of the investment in the bonds. Assume that bonds having a maturity value of $10,000 are purchased by a non-expendable trust fund for $10,200. The entry to record the investment by the nonexpendable trust fund is as follows:

20	Investments	10,000	
	Due from expendable trust fund for unamortized premium	200	
	Cash		10,200
	To record purchase of investments at a premium.		

Assume that the bonds purchased were twenty-year bonds. The amount of the premium to be amortized each year is $10. Therefore, each year when interest on the bonds is received by the expendable trust fund in the form of cash, $10 of that cash is transferred to the non-expendable trust fund. The entry in the non-expendable trust fund is as follows:

1	Cash	10	
	Due from expendable trust fund for unamortized premium		10
	To record collection of cash for unamortized bond premium.		

AMORTIZATION OF DISCOUNTS ON INVESTMENTS

In some cases of investments in bonds, a discount is involved. A discount is computed by subtracting the price paid for the investment from its maturity value. The discount is recorded as an amount due to the expendable trust fund for unamortized discount. Periodically, the non-expendable trust fund will transfer cash to the expendable trust fund over the outstanding life of the investment, thereby eliminating the discount at the maturity date of the investment. Amortization of the discount eliminates the possibility of increasing the nonexpendable trust fund's principal.

ACCRUED INTEREST PURCHASED ON INVESTMENTS

If the cost of an investment exceeds the maturity value of bonds purchased, not because of a premium, but because of accrued interest on the bonds since the last interest payment date, the amount of the interest can be established in an account entitled "due from expendable trust fund for interest purchased." Assume that a $5,000 bond is purchased plus interest of $50 which has accrued since the last interest payment date. The entry to record the transaction follows:

1	Investments	5,000	
	Due from expendable trust fund for interest purchased	50	
	Cash		5,050
	To record purchase of bond plus accrued interest.		

If a trial balance of the non-expendable trust fund is prepared, it appears as follows:

NEW HOPE SCHOOL SYSTEM
Non-Expendable Trust Fund
Trial Balance
Date

Cash	$ 4,760	
Due from expendable trust fund for interest purchased	50	
Investments	45,000	
Due from expendable trust fund for unamortized premium	190	
Non-expendable trust fund equity		$50,000
Total	$50,000	$50,000

At the first interest payment date after the purchase, the expendable trust fund reimburses the non-expendable trust fund for the amount of interest purchased. On the books of the nonexpendable trust fund, cash is debited and the account "due from expendable trust fund for interest purchased" is credited, each for $50.

Restrictions surrounding the use of non-expendable trust funds are more easily enforced and administration of these trust funds is more easily and effectively accomplished through the use of a separate group of self-balancing accounts than would be possible by commingling these restricted financial resources with any other fund, funds or account groups.

EXPENDABLE TRUST FUNDS

An expendable trust fund is created by the board of education to account for money and other property that is received by a school system which is to be held in trust and is to be used in accordance with the terms of a trust agreement. Proper administration of an expendable trust fund is the responsibility of the board of education. All assets of an expendable trust fund may be used, and thus expended, to carry out the objectives of the trust agreement which generally restricts the purpose for which assets of the expendable fund may be used. If such a trust agreement does not exist, the revenue could be recorded in the general fund. However, as the trust agreement does specify the restricted purposes for which assets must be used, it has been found that a separate group of self-balancing accounts provides the easiest and most effective basis for administration of an expendable trust fund. Separate financial statements provide a clear presentation of the fact that the money arising from such a trust is in fact being used for the purposes for which the money was received.

COOPERATIVE EDUCATIONAL PROGRAMS AMONG SCHOOL DISTRICTS

Where law permits, a cooperative educational program may be created among one or more school districts. One of the school districts, by agreement among boards of education, can be designated to serve as the fiscal agent or manager of the cooperative venture. Operating as a separate legal entity, the cooperative educational project may have sources of revenue directly from local, state and/or federal sources or directly from the school districts composing the cooperative educational venture. In such a case, the general fund and/or special revenue funds may best be used. In other areas of governmental accounting, this type of venture is identified as an "Authority." If, on the other hand, the cooperative educational project is to be managed by one of the school districts, money and property received by the cooperative project may be best recorded as an expendable trust fund and accounted for in the same manner as other formal budgetary type or governmental type funds.

NATURE OF EXPENDABLE TRUST FUNDS

Expendable trust funds generally operate in coordination with non-expendable trust funds. Separate accounting records for each type of trust fund are necessary to avoid the possibility of depleting a non-expendable trust fund's principal while the school district is using the income from the non-expendable trust fund investments. An accounting structure which safeguards against depletion of a non-expendable trust fund's principal, and which expedites the use of income earned in accordance with the terms of the trust agreement, is attained by the use of expendable trust funds. Financial statements prepared for both expendable and non-expendable trust funds present clearly and concisely the financial position and results of operation of each fund.

A balance sheet, a statement of revenue, expenses and fund equity, and a statement of changes in financial position are prepared for each expendable trust fund. When financial statements for each are combined, they become an integral part of the comprehensive financial report of the school system. Thus, it will be possible for these financial facts to be disclosed for information and guidance of administrative officers, members of the board, and the public.

RELATION OF EXPENDABLE TRUST FUNDS TO THE BUDGET

Since assets in expendable trust funds come to the school system from sources other than taxation, it is not necessary for a budget to be prepared and submitted to the board for expendable trust funds to serve as a basis for levying a tax or setting a tax rate. Therefore, budgetary accounts are not required to operate in expendable trust funds.

RELATION OF EXPENDABLE TRUST FUNDS TO OTHER FUNDS

This chapter has already emphasized that expendable trust funds operate in most instances when non-expendable trust funds exist. Disbursements may be made by an expendable trust fund to reimburse a non-expendable trust fund for interest purchased at the time of making an investment in bonds or an expense may be incurred to amortize a bond premium. Because an expendable trust fund is established to use its assets for purposes specified in the trust agreement, disbursements may be made directly to individuals or organizations, or to other funds used to carry out such purposes. It is quite possible that an expendable trust fund can have a number of transactions with other funds of the school system.

TYPICAL TRANSACTIONS OF AN EXPENDABLE TRUST FUND

In line with the transactions previously illustrated in the operation of a non-expendable trust fund, assume that the income from investments of a non-expendable trust fund is collected by the expendable trust fund. In addition, assume that the assets of the expendable trust fund are to be used to purchase library books. If the investment of $30,000 bears interest at 8 per cent, payable May 15 and November 15 each year, the entry to record collection of semi-annual interest appears as follows:

15	Cash	1,200	
	Revenue from bond interest		1,200
	To record semi-annual collection of bond interest.		

Because the non-expendable trust fund purchased bonds with a maturity value of $10,000 and paid a premium of $200, the fact that the premium has been paid needs to be recorded on the books of the expendable trust fund to assure that it will be amortized over the outstanding life of the investment. The entry to record the premium on the investment is as follows:

20	Premium on investment in bonds	200	
	Due to non-expendable trust fund for unamortized premium on bonds		200
	To record premium paid by non expendable trust fund on bond investment of $10,000.		

If the investment of $10,000 bears interest at the rate of 10 per cent, payable May 20 and November 20, the following entry records the semi-annual collection of interest:

20	Cash	500	
	Revenue from bond interest		500
	To record collection of bond interest on which an unamortized premium is outstanding.		

The expendable trust fund must amortize the premium each year and it must reimburse the non-expendable trust fund for that portion of the unamortized premium applicable to the period for which interest was collected. Therefore, the following two entries reflect the effect of the annual amortization of the bond premium on the accounts of the expendable trust fund:

Revenue from bond interest	10	
Premium on investment in bonds		10
To record annual amortization of the bond premium.		
Due to non-expendable trust fund for unamortized premium on bonds	10	
Cash		10
To record transfer of cash to amortize the bond premium paid by the non-expendable trust fund on bonds.		

Now that the fund has cash on hand, it can expend that cash for library books. Assume that $200 is expended for library books. The following entry is made:

Expenditures-library books	200	
Cash		200
To record disbursement based upon invoice and receiving report for library books ordered.		

At the time interest is collected on the $5,000 bond investment, the following entry is made:

Cash	150	
Revenue from bond interest		150
To record collection of bond interest at 6 per cent for six months.		

However, the investment was purchased by the non-expendable trust fund after two months' interest had accrued. At the time of the collection of interest by the expendable trust fund, it is necessary that a refund be made to the non-expendable fund for the amount of interest purchased by that fund. The following entry is made by the expendable trust fund:

Revenue from bond interest	50	
Cash		50
To record payment of non-expendable trust fund for accrued interest purchased at the date of the investment in bonds.		

A trial balance of the accounts of the expendable trust fund prepared at this time appears as follows:

NEW HOPE SCHOOL SYSTEM
Expendable Trust Fund
Trial Balance
(Date)

Cash	$1,590	
Premium on investment in bonds	190	
Due to non-expendable trust fund for unamortized premium on bonds		$ 190
Revenue from bond interest		1,790
Expenditures-Library books	200	
Total	$1,980	$1,980

INTERIM AND ANNUAL REPORTING, TRUST FUNDS

The following is an example of the format that is widely used for combining the statement of revenue, expenses, and changes in fund balances for non-expendable trust funds taken from the Houston Independent School District Comprehensive Annual Financial Report for the fiscal year ended August 31, 1981:

HOUSTON INDEPENDENT SCHOOL DISTRICT — Schedule G-2

Trust and Agency Funds
Combining Statement of Revenues, Expenses and Changes in Fund Balances—Non-Expendable Trust Funds
For the Fiscal Year Ended August 31, 1981
With Comparative Totals for the Fiscal Year Ended August 31, 1980

	Non-Expendable Trust Funds			Totals	
	R. C. Chatham Fund	Leon Levy Memorial Fund	Foerster Tri-Centennial Fund	1981	1980
REVENUES					
Interest on Temporary Investments	$ 490	$ 1,100	$ 68	$ 1,658	$ 1,525
TOTAL REVENUES	490	1,100	68	1,658	1,525
EXPENSES					
R. C. Chatham Expenditures	300	—	—	300	300
TOTAL EXPENSES	300	—	—	300	300
Net Income	190	1,100	68	1,358	1,225
Fund Balances at Beginning of Year	3,518	13,682	689	17,889	16,664
Fund Balances at End of Year (Schedule G-1)	$3,708	$14,782	$757	$19,247	$17,889

Note: See accompanying Notes to Financial Statements (Schedule A-6)

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An illustration of the combining statement of revenue, expenditures, and changes in fund balances for expendable trust funds is taken from the Houston Independent School District Comprehensive Annual Financial Report for the fiscal year ended August 31, 1981, and is a follows:

HOUSTON INDEPENDENT SCHOOL DISTRICT

Schedule G-4

Trust and Agency Funds
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances—Expendable Trust Funds
For the Fiscal Year Ended August 31, 1981
With Comparative Totals for the Fiscal Year Ended August 31, 1980

	Expendable Trust Funds						Expendable Trust Funds				Totals	
	Crippled Children's Fund	Arts and Media Center	Volunteers In Public Schools	V.I.P.S. Seniors	Administrative Activity Fund	Petro-Chemical Careers Fund	Deferred Compensation Fund	Student Tutoring Fund	Industrial Education Fund	High School for Engineering Professions	1981	1980
REVENUES												
Interest on Temporary Investments	$ 492	$ 425	$ 1,906	$ 6,475	$ 1,665	$ 3	$ 52,757	$ 17	$ 870	$ 843	$ 65,453	$ 9,341
Contributions	—	—	1,000	3,000	—	—	—	—	12,717	41,521	58,238	60,384
Tote Bag Deposits	—	—	807	—	—	—	—	—	—	—	807	—
Revenue from Sales of Tickets	—	—	—	—	16,845	—	—	—	—	—	16,845	—
Revenue from Sales of Supplies	3,823	—	—	—	—	—	—	—	—	—	3,823	3,385
Funds Received from Employees	—	—	—	—	—	—	659,265	—	—	—	659,265	17,156
TOTAL REVENUES	4,315	425	3,713	9,475	18,510	3	712,022	17	13,587	42,364	804,431	90,266
EXPENDITURES												
Funds Returned to Employees	—	—	—	—	—	—	3,113	—	—	—	3,113	—
Cripled Children's Expenditures	2,549	—	—	—	—	—	—	—	—	—	2,549	3,206
VIPS Expenditures	—	—	4,026	—	—	—	—	—	—	—	4,026	8,052
VIPS-Seniors Expenditures	—	—	—	35,308	—	—	—	—	—	—	35,308	31,205
Industrial Education Expenditures	—	—	—	—	—	—	—	—	11,800	—	11,800	8,372
High School for Engineering Professions Expenditures	—	—	—	—	—	—	—	—	—	30,796	30,796	39,996
Petro-Chemical Careers Expenditures	—	—	—	—	—	—	—	—	—	—	—	621
Administration Cabinet Fund Expenditures	—	—	—	—	11,214	—	—	—	—	—	11,214	—
Student Tutoring Fund Closed	—	—	—	—	—	—	—	456	—	—	456	—
TOTAL EXPENDITURES	2,549	—	4,026	35,308	11,214	—	3,113	456	11,800	30,796	99,262	91,452
Excess (Deficiency) of Revenues Over Expenditures	1,766	425	(313)	(25,833)	7,296	3	708,909	(439)	1,787	11,568	705,169	(1,186)
Fund balances at beginning of year	2,495	2,759	13,994	40,658	9,626	29	17,302	439	4,936	(1,376)	90,862	92,048
Fund balances at end of year (Schedule G-1)	$4,261	$3,184	$13,681	$14,825	$16,922	$32	$726,211	$ —	$ 6,723	$10,192	$796,031	$90,862

Note: See accompanying Notes to Financial Statements (Schedule A-6)

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The combining statement of changes in financial position for non-expendable trust funds is from the Houston Independent School District Comprehensive Annual Financial Report for the fiscal year ended August 31, 1981, and is as follows:

Schedule G-3

HOUSTON INDEPENDENT SCHOOL DISTRICT
Trust And Agency Funds

Combining Statement Of Changes In Financial Position—Non-Expendable Trust Funds
For The Fiscal Year Ended August 31, 1981
With Comparative Totals For The Fiscal Year Ended August 31, 1980

	Non-Expendable Trust Funds			Totals	
	R. C. Chatham Fund	Leon Levy Memorial Fund	Foerster Tri-Centennial Fund	1981	1980
SOURCE OF WORKING CAPITAL					
Operations—Net Income	$190	$1,100	$68	$1,358	$1,225
Total Source of Working Capital	190	1,100	68	1,358	1,225
Net Increase in Working Capital	$190	$1,100	$68	$1,358	$1,225
Elements of Net Increase (Decrease) In Working Capital:					
Cash	$ (7)	$ 44	$—	$ 37	$ 29
Accrued Interest	338	4	68	410	1,094
Certificates of Deposit	(141)	1,052	—	911	102
Net Increase In Working Capital	$190	$1,100	$68	$1,358	$1,225

Note: See accompanying Notes to Financial Statements (Schedule A-6)

In this chapter, the illustration of the combining balance sheet for expendable trust funds and for non-expendable trust funds is presented as the final illustration of this chapter. Note that a balance sheet exists for each non-expendable trust fund and for each expendable trust fund. It is a common practice to present a combining balance sheet for both trust funds and agency funds, however, individual identity of each fund is retained.

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HOUSTON INDEPENDENT SCHOOL DISTRICT
Trust And Agency Funds

Combining Balance Sheet
August 31, 1981
With Comparative Totals For August 31, 1980

	Expendable Trust Funds						
	Crippled Children's Fund	Arts and Media Center	Volunteers in Public Schools	V.I.P.S. Seniors	Administrative Activity Fund	Petro-Chemical Careers Fund	Deferred Compensation Fund
ASSETS							
Cash in Banks	$ 1	$ —	$ 1	$ 1	$ 19	$ 1	$ —
Cash on Hand	—	—	500	—	—	—	—
Investments	4,260	3,184	13,180	46,494	15,850	31	677,068
Accrued Interest	—	—	—	2,627	1,053	—	21,651
Other Receivables	—	—	—	—	—	—	—
Due from General Fund	—	—	—	—	—	—	27,492
Due from Special Revenue Funds—Extramural Athletic Fund	—	—	—	—	—	—	—
Due from Enterprise Funds—Snack Bar, C.A.C. and C.C. Fund	—	—	—	—	—	—	—
Due from Capital Projects Funds—School Maintenance and Renovation Fund	—	—	—	—	—	—	—
Total Assets	$4,261	$3,184	$13,681	$49,122	$16,922	$32	$726,211
LIABILITIES AND FUND BALANCES							
Accounts Payable	$ —	$ —	$ —	$ —	$ —	$—	$ —
Due to General Fund	—	—	—	34,297	—	—	—
Due to Enterprise Funds—Snack Bar, C.A.C. and C.C. Fund	—	—	—	—	—	—	—
Due to Schools	—	—	—	—	—	—	—
Other Liabilities	—	—	—	—	—	—	—
Fund Balances (Schedule G-2 and G-4)	4,261	3,184	13,681	14,825	16,922	32	726,211
Total Liabilities and Fund Balance	$4,261	$3,184	$13,681	$49,122	$16,922	$32	$726,211

Note: See accompanying Notes to Financial Statements (Schedule A-6)

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Expendable Trust Funds		Non-Expendable Trust Funds			Agency Funds			Totals	
Industrial Education Fund	High School For Engineering Professions	B. C. Chatham Fund	Leon Levy Memorial Fund	Foerster Tri-Centennial Fund	Non-Centralized Activity Fund	Centralized Activity Fund	Various Schools	1961	1960
$ 1	$ 1	$ —	$ 660	$ —	$1,134,770	$ 130,928	$ 9,363	$1,275,666	$1,168,709
—	—	—	—	—	—	6,250	—	6,750	5,850
6,721	10,443	3,359	13,928	609	673,508	1,067,982	370,709	2,907,356	1,825,133
1	—	349	194	148	—	51,960	16,698	94,500	4,771
—	—	—	—	—	—	—	—	—	9,624
—	—	—	—	—	—	—	—	27,492	11
—	—	—	—	—	—	180	—	180	—
—	—	—	—	—	—	—	—	—	61,830
—	—	—	—	—	—	—	—	—	111,557
$6,723	$10,444	$3,708	$14,782	$757	$1,808,368	$1,257,049	$396,790	$4,312,034	$3,187,485
$ —	$ —	$ —	$ —	$ —	$ 111,599	$ —	$ —	$ 111,599	$ 42,211
—	252	—	—	—	23,140	63,594	—	121,283	173,548
—	—	—	—	—	—	1,600	—	1,600	—
—	—	—	—	—	1,673,629	1,189,984	396,790	3,260,403	2,861,467
—	—	—	—	—	—	1,871	—	1,871	1,508
6,723	10,192	3,708	14,782	757	—	—	—	815,278	108,751
$6,723	$10,444	$3,708	$14,782	$757	$1,808,368	$1,257,049	$396,790	$4,312,034	$3,187,485

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Chapter 18
Trust Funds

QUESTIONS

18-1. (a) What term is used to identify the equity of a trust fund?
(b) How is a trust fund created?

18-2. What happens to the principal of a trust fund?

18-3. Can cash composing a trust fund, the principal of which is to remain intact, be invested in securities? If so, what kind?

18-4. Under what conditions should a non-expendable trust fund be created?

18-5. Identify by name and describe the two types of non- expendable trust funds.

18-6. Are budgetary accounts used in the operation of a non- expendable trust fund? If so, why? If not, why not?

18-7. How may a non-expendable trust fund be related to other funds?

18-8. Record the following transactions in general journal form:
(a) $30,000 is received by the Adams City School System to be used as a non-expendable trust fund; income from investments is to be used to purchase recreation equipment.
(b) The school system purchased certain commercial bonds authorized by the trust agreement which have a maturity value of $15,000. The price paid was $15,500 on January 2.
(c) The bond premium is to be amortized over a period of 25 years.
(d) The school system received interest on December 31 of $1,200.

18-9. Construct a trial balance for the non-expendable trust fund in problem 18-8 as of December 31.

18-10. Under what circumstances is an expendable trust fund created and who is responsible for administration of this type of trust fund?

18-11. Why are separate accounts maintained for expendable trust funds and non-expendable trust funds?

18-12. What are a number of kinds of transactions which can be handled effectively through the use of expendable trust fund accounting principles and procedures?

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CASES AND PROBLEMS

18-1. You are employed as business manager for the D. W. Johnson School District on January 1, 19--, and want to keep all accounts in accordance with principles of accounting applicable to school systems. In going over the various funds of the school district, you find an account containing the following:

School Book Fund

Cash on hand and in bank	$12,025	Fund equity	$33,975
Notes receivable	1,500		
Expenditures	200		
Purchases	20,250		$33,975
	$33,975		$33,975

Additional data:

Cash is composed of $2,025 in the office safe and a $10,000, 11% savings account passbook at the First National Bank, interest due on March 1 each year.

Notes receivable are in the office safe as follows: One is from the school district's general fund in the amount of $1,000, dated July 1, 19--, (of the preceding year) which bears interest at the rate of 6% from the school district's internal service fund. Invoices for expenditures of $200 were found to be approved properly and were for purposes authorized for this fund.

Purchases were supported by purchase invoices for books in the amount of $21,000, of which $750 was returned according to an agreement with the supplier. However, $2,000 of books were in inventory on an invoice dated December 26; the books were received December 29 but no entry has been made to record what has happened.

INSTRUCTIONS:

1. Prepare a worksheet to set up accounts necessary to reflect the financial position and results of operation of this expendable trust fund as of January 1 of the current year.

18-2. The Portage School district has a non-expendable trust fund created for the purpose of investing in income producing property, the income from which is to be collected by an expendable trust fund and is to be used for the purchase of certain science laboratory equipment. The non-expendable trust purchased bonds with a maturity value of $100,000 at 105 ($105,000). The bonds are 10-year bonds and bear interest at the rate of 10%. Interest is payable annually.

INSTRUCTIONS:

1. Record the purchase of the bonds on the books of the non-expendable trust fund.
2. Record the collection of interest for the first year on the books of the expendable trust fund.
3. Record a transfer of cash from the expendable trust fund to the non-expendable trust fund to amortize the first year's portion of the bond premium.

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AGENCY FUNDS

The board of education determines whether the proposed purpose of an agency fund falls within the scope of the purposes that are to be served by the school system and its board of education. If so, an agency fund can be created. Policies of boards of education should eliminate accounting for individuals, groups, or organizations outside the school district's control.

Once authorized by the board, agency funds account for assets which are to be held for others by the school system with the board of education acting as an agent. Agency funds are expendable but differ from expendable trust funds because actions affecting the agency funds' assets are taken by or directed by the principal, i.e., the person, organization or group, for whom the agency fund was created rather than by the board of education. The board of education serves merely as a custodian of the agency fund's assets and acts only according to directives of others who have authority to decide the purpose for which the assets are to be used.

The most common uses of this type of fund are for student activities that involve a collection of money, for operation of a central treasury for the school district, for a central tax collection department, and for operating a central payroll department for the school district. By use of the agency fund accounting concept for a centralized payroll department for the entire school district, financial accounting and reporting for each fund that employees people can be greatly simplified. By use of these accounting principles for operating a centralized tax collection agency, financial accounting and reporting can be greatly simplified for all funds receiving revenue from property taxes. By use of a central treasury for the school district, maximum interest income can be earned by investing all available cash of the school district in certificates of deposit or other income-producing temporary investments. Centralization of these areas of financial activity can minimize the number of technically trained people needed to perform these services for the school district.

Agency fund accounting principles apply to assets held by the school system for its employees and for the federal government in the case of withholding and social security taxes. The school system deducts federal income tax and social security taxes from the salaries of employees and remits the amount withheld to the federal government periodically. The school system acts as an agent for its employees when it makes deductions from payrolls for state and city income taxes, retirement, hospitalization, savings bonds, and for many other purposes. In these cases, the board does not determine the purpose for which the assets are to be used, but instead, the board acts or makes a disbursement or distribution when proper authority is granted to it by the employee, by law, or by contract. In such cases, however, the board of education has the responsibility for establishing adequate internal accounting and management controls needed to safeguard such assets and provide assurance that the assets are being used for the purposes for which they were provided.

Other examples of agency funds are those which provide a banking function for organizational units within the school district. Money is collected by the organization, deposited with the school district, and disbursed by the school district upon written authority granted by a properly designated representative of the organization. Agency funds are used in connection with collections for class projects, the Red Cross, United Fund, and for many other similar organizational projects.

A major advantage of agency funds is that they can avoid commingling the school district's resources with those of others. Increasing demands are being made upon school districts to render services as custodian of assets for others. Therefore, it is necessary that internal controls, accounting procedures, and financial responsibility be clearly established by the board of education for the efficient and effective use of agency funds.

CREATION OF AGENCY FUNDS

Agency funds usually are created by the board of education when an individual or organization related to the operation of the school district requests that certain assets be placed in the custody of the school system to be used for purposes approved by the board of education. When initial assets are turned over to the school district, a card containing the signature of the person or persons authorized by the organization to withdraw cash or other assets is filed with the school district along with a statement indicating the purpose for which disbursements are to be made and directing disposition of assets remaining in the fund when activity in the fund ceases. Many complications arise when financial statements continue to report existence of agency funds which have ceased to be used.

Agency funds also are created as a way by which financial administration, accounting and reporting of certain kinds of financial transactions can be simplified for the school district and the services rendered by the agency fund can be most economically, efficiently and effectively provided for the school district.

If money is received by a school district regularly from a local, intermediate, state or federal source and the money is to be used for such ordinary and necessary purposes as operation of plant, maintenance of plant, or capital outlay, it should be recorded and reported as a part of the general fund or as a special revenue fund of the school system. In such a case, money is used at the direction of the board and is not an agency fund. It is important to distinguish between transactions that require the use of agency funds and transactions that can best be recorded as a part of the general fund or other fund of the school district.

Work required in accounting for agency funds is minimized because it is not necessary for the school system to set up revenue and expenditure accounts to indicate the source of the assets or the purposes for which an individual or organization uses its own money. If the source of assets and purpose for which the money is to be spent is not in keeping with the objectives of the school system, the board of education does not have to accept responsibility for it or act as an agent or custodian for it.

RELATION OF AGENCY FUNDS TO THE BUDGET

An agency fund does not have revenue nor does it have expenditures or expenses. It has only asset and liability accounts. Therefore, it does not operate under the provisions of a budget used as a basis for setting tax rates. No budgetary accounts are required for agency funds.

Agency funds frequently are used to relieve the general fund and each other fund of the school district making salary payments for personal services of many accounts that are required by payroll procedures. When the agency fund concept is used for a central payroll department, money equal to the total payroll cost is transferred from the general fund and from each of the other funds paying salaries to the central payroll agency fund which accounts for payments of all salaries, withholding taxes, social security taxes, related payroll deductions and employer tax liabilities of the school district. In this way, the school district gains the advantages of one centralized payroll department.

FINANCIAL STATEMENTS OF AGENCY FUNDS

A trial balance and a balance sheet can be prepared for each agency fund at any time from its general ledger. Cash disbursements equal cash collections at the completion of the purpose for which an agency fund was created. At that time all accounts of the agency fund should be in balance and the accounts should be properly ruled. Only accounts for cash, other kinds of assets and liabilities are needed by agency funds.

Because it is the individual agency fund that is important, a separate balance sheet is required for each agency fund and each balance sheet should be supported by a schedule of cash receipts and disbursements. If there are numerous agency funds, the balance sheets for each agency fund are combined for presentation in the comprehensive financial report. The following illustration of a combining balance sheet for all agency funds which also presents changes in assets and liabilities of each fund is taken from *Statement 1, Governmental Accounting and Financial Reporting Principles* published in 1979 by the Governmental Accounting Standards Board:

EXAMPLE 9

Name Of Governmental Unit

Combining Statement of Changes in Assets and Liabilities—All Agency Funds

For Fiscal Year Ended December 31, 19X2

SPECIAL PAYROLL FUND	Balance January 1, 19X2	Additions	Deductions	Balance December 31, 19X2
ASSETS				
Cash	$ 6,000	$ 40,900	$ 43,550	$ 3,350
LIABILITIES				
Vouchers payable	$ 6,000	$ 40,900	$ 43,550	$ 3,350
PROPERTY TAX FUND				
ASSETS				
Cash	$ 25,800	$ 800,000	$ 725,000	$100,800
Taxes receivable (net of allowances for uncollectibles)	174,200	1,205,800	800,000	580,000
Total Assets	$200,000	$2,005,000	$1,525,000	$680,000
LIABILITIES				
Due to Other Taxing Units:				
County	$180,000	$1,085,220	$ 652,500	$612,720
Special District	20,000	120,580	72,500	68,080
Total Liabilities	$200,000	$1,205,800	$ 725,000	$680,800
STUDENT ACTIVITY FUND				
ASSETS				
Cash	$ 1,600	$ 1,900	$ 1,650	$ 1,850
LIABILITIES				
Due to student groups	$ 1,600	$ 1,900	$ 1,650	$ 1,850
TOTALS—ALL AGENCY FUNDS				
ASSETS				
Cash	$ 33,400	$ 842,800	$ 770,200	$106,000
Taxes receivable (net of allowance for uncollectables)	174,200	1,205,800	800,000	580,000
	$207,600	$2,048,600	$1,570,200	$686,000
LIABILITIES				
Vouchers payable	$ 6,000	$ 40,900	$ 43,550	$ 3,350
Due to other taxing units	200,000	1,205,800	725,000	680,800
Due to student groups	1,600	1,900	1,650	1,850
Total Liabilities	$207,600	$1,248,600	$ 770,200	$686,000

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As agency funds do not incur expenses or generate revenue, a statement of revenues and expenditures is not prepared nor is the statement of changes in fund equity or the statement of changes in financial position prepared.

STUDENT ACTIVITY FUNDS

If an employee of a school system has the collection of money from students, student organizations such as the student council, music club, camera club, school shows, and other similar student activities, student activity funds which operate as an agency fund provides a basis for adequate accounting and financial reporting. Emphasis is placed upon the fact that the duties of the employee may be prescribed by the school system, thus making financial transactions with these students and/or organizations a contractual responsibility of the board of education. If transactions of this type are authorized by the board, it is necessary that accounting standards, including adequate internal controls, be established to safeguard the financial integrity of the employee as well as the financial resources of the student and/or student organization. Because this becomes a contractual obligation of the board of education, interim and annual financial statements are required if the board is to discharge its responsibilities efficiently and effectively.

Accounts needed to record cash receipts and disbursements for a student activity fund usually consist of the following:

Cash
Cash on deposit with the school treasurer
Cash on deposit with a bank
Certificates of deposit
Due to *(name of class)*
Due to *(name of individual student organization)*

CENTRAL PAYROLL FUND, AN AGENCY FUND

The following funds use the services of employees and, as a result, each fund requires the use of expenditure/expense accounts to control, classify and record the costs of personal services:

The general fund
Each special revenue fund
Each capital projects fund, usually
Each internal services fund
Each enterprise fund
Some trust funds

If each fund making expenditures for salaries and related employee benefits maintained all of the accounts necessary for payroll administration, each fund would require one or more employees who are technically trained in payroll accounting and the general ledger for each fund would contain many of the following liability accounts either in its general ledger or in subsidiary ledgers:

Liabilities:
- Salaries payable
- Social security taxes payable
- Federal income tax withheld and payable
- State income tax withheld and payable
- City income tax withheld and payable
- Federal unemployment taxes payable
- State unemployment taxes payable
- Current employee compensated absences payable
- Employee hospitalization insurance premiums payable
- Retirement fund contributions payable
- Worker's compensation insurance payable
- Group life insurance premiums payable
- Dental insurance premiums payable
- Garnisheed wages withheld and payable
- Union dues withheld and payable
- Amounts withheld and payable to the credit union
- Savings bond deductions withheld and payable
- Others

Accounting and financial reporting can be simplified for school districts by eliminating the need for these liability accounts in each of these funds by consolidating the work related to payroll accounting into a central payroll agency fund. Only one set of these liability accounts is needed to manage the total payroll liabilities of the school district.

It would be necessary, however, for the funds using the services of employees to continue to control the cost of personnel services, including the cost of compensated absences. To do so, the following accounts would continue to be needed (classification may vary according to circumstances surrounding the individual fund):

Expenditures, Appropriations and Encumbrances:
- Salaries:
  - Regular education
  - Special education
  - Vocational education
  - Other K-12 education
  - Adult/continuing education
  - Attendance and social work services
  - Guidance services
  - Health services
  - Psychological services
  - Speech pathology and audiology services
  - Instructional staff:
    - Improvement of instructional services
    - Instructional media services

  - Board of education
  - General administration
  - School administration
  - Planning, research, development and evaluation
  - Facility acquisition and construction
  - Fiscal services
  - Food services
  - Internal services
  - Information services
  - Operation and maintenance of plant
  - Pupil transportation services
  - Staff services
  - Statistical services
  - Computer services
  - Community services
  - Others
- Employee benefits (employer's expenses):
  - Social security tax expense
  - State insurance contributions act expense
  - Federal insurance contributions act expense
  - Worker's unemployment compensation expense
  - Employee compensated absences expense
  - Employee hospitalization insurance expense
  - Employee dental insurance expense
  - Employee retirement contributions expense
  - Employee life insurance expense
  - Other employer's payroll expense

The employee benefits may be further classified according to the expenditure structure used for salaries and wages to determine the total employment costs for each expenditure classification.

If a central payroll agency fund is not used, not only would many accounts be necessary in each fund making expenditures for personal services and employee benefits, but each fund would be required to make individual payments to employees, file various federal, state and city income tax reports, and make periodic payments to others for various kinds of employment liabilities incurred.

TEMPORARY INVESTMENT OF IDLE CASH IN CENTRAL PAYROLL AGENCY FUND

$1,000,000 of idle cash, uninvested, loses $246.58 per day at a daily interest rate of 9%. Interest revenue is a major source of additional income to a school district. When authorized, temporarily idle cash in a central payroll agency fund may be invested in authorized temporary investments. Interest earned on temporary investments, however, should not be considered a revenue of the central payroll agency fund but, instead, the revenue should be distributed to the funds using the services of the central payroll agency fund. The distribution may be recorded as a central payroll agency fund liability to each fund using the central payroll fund's services. Distribution of this revenue to each fund may be computed on the basis of the amount of cash that is transferred to pay payroll costs by each fund to the central payroll agency fund. Revenue would be recorded only in the funds utilizing the services of the central payroll agency fund. If a central treasury agency fund is used, however, authority to make temporary investments of idle cash may be vested in the school system's central treasurer.

THE IMPREST CENTRAL PAYROLL AGENCY FUND

In order that a centralized payroll department be maintained and only one staff of people be needed who are trained in the complexities of payroll accounting, the central payroll agency fund can be used by school districts.

Expenditures are made from the general fund and other operating funds for the total employment costs and cash is transferred from each fund by check to the central payroll agency fund. From this one agency fund, all payroll checks are issued, remittances are made to the District Director, Internal Revenue Service, for federal income tax and social security tax withheld, and remittances are made to all other agencies for which money has been withheld from employees and for employer expenses that have been incurred for employee benefits. From this one agency fund, all interim and annual employment tax and withholding reporting forms are prepared and submitted according to requirements of each.

Through this procedure, payroll transactions can be centralized for the school system and responsibility can be placed for proper payroll administration. Only one group of employees technically trained in payroll administration is needed for the entire school district. In a decentralized payroll system, people technically trained in payroll accounting would be needed by each fund using personal services of employees. Observe that administrative decisions needed to determine academic and staff qualifications and salary are made by the fund employing personnel, not the payroll department. The amounts of money transferred to the payroll fund are held by the payroll fund as an agent for the employees and other agencies related to employment of employees.

OPERATION OF THE PAYROLL DEPARTMENT

The payroll department computes the pay of each employee of the school district. It then bills each fund for the total cost of employment for that fund, which is made up of its employees gross pay plus the employer's related expenses for employee fringe benefits, including compensated absences.

One check is written each pay period, payable to the central payroll agency fund, by each fund using the services of the central payroll department. The general fund would record its employment costs, including compensated absences, for example, as:

Salaries, instruction
Employee benefits, instruction
Salaries, special programs
Employee benefits, special programs
Salaries, guidance services
Employee benefits, guidance services
Salaries, board of education
Employee benefits, board of education
Salaries, general administration
Employee benefits, general administration
Salaries, school administration
Employee benefits, school administration
Salaries, internal services
Employee benefits, internal services
Salaries, operation and maintenance of plant
Employee benefits, operation and maintenance of plant
Salaries, pupil transportation services
Employee benefits, pupil transportation services
Salaries, statistical services
Employee benefits, statistical services
    Cash

To record issuance of check of the general fund payable to the central payroll agency fund for all employmnent costs for the payroll period from July 6 to July 20, 19--.

At the end of the accounting period, each fund using services of the central payroll department should inventory its liabilities for compensated absences, i.e., sick leave, annual leave, and make an adjusting entry to current salary costs accounts and to the current liability account for the accrued compensated absences expense payable. The current portion is the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources. The remainder of the liability should be reported in the general long-term debt group of accounts.

Only the minimum number of accounts need to be maintained in the books of each individual fund using the services of the central payroll agency fund. The fund using the central payroll services would be required to provide adequate appropriations to cover total employment cost through budgetary action. Therefore, the payroll fund would not use budgetary accounts.

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INDIVIDUAL EARNINGS RECORDS

For each individual employee, a record of earnings should be kept. The following illustrates how information about pay for each individual employee may be recorded on the individual earnings record. This record is important because questions may arise in later periods about earnings, social security taxes withheld, income taxes withheld, or eligibility for retirement. It also

NEW HOPE SCHOOL SYSTEM
INDIVIDUAL EARNINGS RECORD

SALARY SCHEDULE	POSITION	LOCATION	SOCIAL SECURITY NUMBER

19-- PERIOD ENDING	REGULAR EARNINGS		ADDITIONAL EARNINGS			TOTAL AMOUNT
	HOURS WORKED	AMOUNT	HOURS WORKED	RATE	AMOUNT	
FIRST QUARTER TOTALS						
SECOND QUARTER TOTALS						
THIRD QUARTER TOTALS						
FOURTH QUARTER TOTALS YEARLY TOTALS						

NAME - LAST FIRST MIDDLE	ADDRESS

F.I.C.A. TAX	FEDERAL INCOME TAX	GROUP INSURANCE	RETIREMENT	TOTAL DEDUCTIONS	CHECK NO.	AMOUNT

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serves the school system as a basis for filing informational returns for state and federal income tax and for federal social security tax purposes.

PAYROLL VOUCHER

A payroll voucher, illustrated by the following, is prepared for each pay period. The payroll voucher lists the names of each employee, regular earnings, additional earnings, gross earnings, income tax withheld, employee's F.I.C.A. tax withheld, group insurance, other deductions, net paid, and check number. It serves as the basis for the journal entry necessary to record the payroll.

NEW HOPE SCHOOL SYSTEM

PAYROLL VOUCHER

FOR PAY PERIOD ENDED ____________ 19__

	REGULAR EARNINGS			ADDITIONAL EARNINGS				DEDUCTIONS PAYABLE					NET PAID	
EMPLOYEE'S NAME	NUMBER REGULAR HOURS	RATE PER HOUR	AMOUNT	NUMBER EXCESS HOURS	RATE PER HOUR	AMOUNT	TOTAL EARNINGS	EMPLOYEES F.I.C.A. TAX	FEDERAL INCOME TAX	GROUP INSURANCE	RETIREMENT	TOTAL DEDUCTIONS	CHECK NO.	AMOUNT

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Assume that the total payroll shows gross earnings of employees to be paid from the general fund in the amount of $35,000; income tax withheld, $6,820; employees' F.I.C.A. tax withheld, $710; group insurance, $1,240; and savings bond deductions of $1,230. The entry to record the payroll in the central payroll fund is as follows:

Due from General Fund	35,000	
Income tax withheld and payable		6,820
F.I.C.A. tax payable		710
Group insurance deductions payable		1,240
Savings bond deductions payable		1,230
Vouchers payable		25,000
To record payroll voucher.		

The central payroll fund records the school district's liability for employer's social security tax in an amount equal to that deducted from the employees' salaries. The entry is as follows:

Due from General Fund	710	
F.I.C.A. tax payable		710
To record the employer's contribution for social security taxes.		

Employees of the school district are usually employed under the provisions of a salary schedule adopted by the board of education for each classification of employee. Salary schedules are adopted based upon consideration of the employee's qualifications, years of service, and related matters. This chapter will not deal with the criteria or standards for salary schedule construction, since this is a personnel rather than an accounting matter; however, once adopted by the board, the salary schedules, sick leave policies, insurance program, provisions for employment of substitutes, and methods of computing salaries become the basis for payroll computation.

EMPLOYMENT PROCEDURES

The problems related to setting forth job specifications and qualifications for each position in the school system are generally under the direct supervision of the chief personnel officer. The payroll department requires that such an officer furnish information relative to each position filled, the rate of pay, the name of the employee, and the place of employment.

As a matter of clerical efficiency, many documents necessary for the payroll department are secured by the personnel office at the time of employment. These documents include a statement from a designated administrative officer notifying the payroll department that an employee has been added to the staff or faculty. It gives authority to the payroll department to prepare a payroll file for the employee and to place the employee's name on the payroll. Any pay deduction other than federal income tax withholding, mandatory retirement, or social security tax deduction, should be authorized in writing by the employee at the time of employment, and a copy of the pay deduction authorization should be filed with the payroll department.

The employing officer should have each employee file Internal Revenue Service's Form W-4, the Employee's Withholding Exemption Certificate, on which the employee states the number of exemptions claimed, the employee's social security number, the name and address. In some cases, the social security number is a prerequisite to entering the name of the employee on the payroll. If the employee does not have a social security number, an application for one should be made on Form SS-5. This form may be secured from the nearest office of the Internal Revenue Service or from the Social Security Administration Office. If no certificate is filed, the employer is not permitted to allow any withholding exemption in the computation of pay and the maximum deduction for federal income tax purposes is necessary. The amount to be withheld from each pay period's gross earnings is computed by reference to the pay period covered, the gross pay for the period, and the number of exemptions claimed on the employee's Form W-4.

Notice of any further change authorized in pay status or deductions should also be furnished to the payroll department. Changes in pay status include authorizations for increases in pay resulting from promotion or additional duties; deductions for absences without accumulated leave; deductions for absences without sick leave; pay adjustments required in the case of substitutes, and similar items.

Once an employee has been entered on the payroll, procedures should be developed whereby reports are submitted to the payroll office indicating the continued employment of the individual. Time cards, in the case of hourly employees, or weekly attendance reports should be filed by the administrative department head with the payroll department as a basis for pay computation of each employee. Written notice of separation is required for the name of an employee to be deleted from the payroll and for the employee's payroll file to be closed.

Numerous methods of reporting employment have been developed. It is important under any set of circumstances, however, that responsibility be placed in an administrative officer other than an employee of the payroll or accounting department for initiating all documents which serve as a basis for pay authorization.

COMPUTATION OF GROSS EARNINGS

The number of days recognized as constituting the pay period is important in computing salary. If it is the policy of the board to deduct an amount from a salary for absences in excess of authorized leave or sick leave, it is obvious that the daily wage rate is necessary for computing the salary. Gross earnings for each employee are calculated for the pay period according to the terms of the individual employee's contract of employment. Under the provisions of the Federal Fair Labor Standards Act, commonly known as the Wage and Hour

Law, employers are required to pay 150 per cent (time and a half) of the regular rate for all hours worked in excess of 40 hours per week. Executives, administrators, and certain supervisory persons are not covered by the provisions of this law.

Assume that John Jones is employed at the rate of $6 an hour for the first 40 hours per week and $9 an hour for all hours worked in excess of 40 per week. Assume that he works as follows: Monday, 8 hours; Tuesday, 8 hours; Wednesday, 9 hours; Thursday, 9 hours; Friday, 8 hours; and Saturday, 8 hours. Computation of his gross earnings would be as follows:

Day	Total Hours Worked	Regular Time	Overtime Hours
Monday	8	8	
Tuesday	8	8	
Wednesday	9	8	1
Thursday	9	8	1
Friday	8	8	
Saturday	8	-	8
Total	50	40	10

Regular time:	40 hours @	$6.00 =	$240.00
Overtime hours:	10 hours @	9.00 =	90.00
Gross earnings	50		$330.00

PAYROLL TAXES, FEDERAL, STATE AND CITY

The school district is required to withhold, deposit, report, and pay federal, state and city income taxes withheld from salaries and wages of employees. It is required to withhold, deposit, report and pay social security taxes withheld from employee salaries and wages and also to pay the employer's social security taxes of an amount equal to that withheld from employees. It also must withhold various other kinds of deductions requested by the employee. Although this chapter does not provide a comprehensive coverage of all payroll problems, the nature of withholding taxes and social security taxes will be discussed.

FEDERAL INCOME TAX WITHHOLDING

The school system is required by law to withhold federal income tax from salary and wage payments to the individual employee. The amount to be withheld is computed by reference to government wage-bracket withholding tables or by the use of a percentage method. Each year the Internal Revenue Service, U.S. Department of Treasury, publishes "Circular E, Employer's Tax Guide." This is available from the local office of the Internal Revenue Service. When the government wage-bracket withholding tables are used, the amount of federal income tax withheld is found by referring to the appropriate table, the wage-bracket in which the gross earnings of the individual falls, and the column of the table which indicates the number of withholding exemptions claimed by the individual employee. Therefore, each individual employee's case is treated separately. The government wagebracket withholding tax table for married persons based on a biweekly payroll period for wages paid after June 1982 and before July 1983 is subject to change periodically and is presented in the following chart.

MARRIED Persons—BIWEEKLY Payroll Period

(For Wages Paid After June 1982 and Before July 1983)

And the wages are—		And the number of withholding allowances claimed to—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$0	$92	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
92	94	.10	0	0	0	0	0	0	0	0	0	0
94	96	.30	0	0	0	0	0	0	0	0	0	0
96	98	.60	0	0	0	0	0	0	0	0	0	0
98	100	.80	0	0	0	0	0	0	0	0	0	0
100	102	1.00	0	0	0	0	0	0	0	0	0	0
102	104	1.30	0	0	0	0	0	0	0	0	0	0
104	106	1.50	0	0	0	0	0	0	0	0	0	0
106	108	1.80	0	0	0	0	0	0	0	0	0	0
108	110	2.00	0	0	0	0	0	0	0	0	0	0
110	112	2.20	0	0	0	0	0	0	0	0	0	0
112	114	2.50	0	0	0	0	0	0	0	0	0	0
114	116	2.70	0	0	0	0	0	0	0	0	0	0
116	118	3.00	0	0	0	0	0	0	0	0	0	0
118	120	3.20	0	0	0	0	0	0	0	0	0	0
120	124	3.60	0	0	0	0	0	0	0	0	0	0
124	128	4.00	0	0	0	0	0	0	0	0	0	0
128	132	4.50	0	0	0	0	0	0	0	0	0	0
132	136	5.00	.40	0	0	0	0	0	0	0	0	0
136	140	5.50	.90	0	0	0	0	0	0	0	0	0
140	144	6.00	1.30	0	0	0	0	0	0	0	0	0
144	148	6.40	1.80	0	0	0	0	0	0	0	0	0
148	152	6.90	2.30	0	0	0	0	0	0	0	0	0
152	156	7.40	2.80	0	0	0	0	0	0	0	0	0
156	160	7.90	3.30	0	0	0	0	0	0	0	0	0
160	164	8.40	3.70	0	0	0	0	0	0	0	0	0
164	168	8.80	4.20	0	0	0	0	0	0	0	0	0
168	172	9.30	4.70	.10	0	0	0	0	0	0	0	0
172	176	9.80	5.20	.60	0	0	0	0	0	0	0	0
176	180	10.30	5.70	1.10	0	0	0	0	0	0	0	0
180	184	10.80	6.10	1.50	0	0	0	0	0	0	0	0
184	188	11.20	6.60	2.00	0	0	0	0	0	0	0	0
188	192	11.70	7.10	2.50	0	0	0	0	0	0	0	0
192	196	12.20	7.60	3.00	0	0	0	0	0	0	0	0
196	200	12.70	8.10	3.50	0	0	0	0	0	0	0	0
200	210	13.50	8.90	4.30	0	0	0	0	0	0	0	0
210	220	14.70	10.10	5.50	.90	0	0	0	0	0	0	0
220	230	15.90	11.30	6.70	2.10	0	0	0	0	0	0	0
230	240	17.20	12.50	7.90	3.30	0	0	0	0	0	0	0
240	250	18.80	13.70	9.10	4.50	0	0	0	0	0	0	0
250	260	20.40	14.90	10.30	5.70	1.10	0	0	0	0	0	0
260	270	22.00	16.10	11.50	6.90	2.30	0	0	0	0	0	0
270	280	23.60	17.40	12.70	8.10	3.50	0	0	0	0	0	0
280	290	25.20	19.00	13.90	9.30	4.70	0	0	0	0	0	0
290	300	26.80	20.60	15.10	10.50	5.90	1.20	0	0	0	0	0
300	320	29.20	23.00	16.90	12.30	7.70	3.00	0	0	0	0	0
320	340	32.40	26.20	20.10	14.70	10.10	5.40	.80	0	0	0	0
340	360	35.60	29.40	23.30	17.10	12.50	7.80	3.20	0	0	0	0
360	380	38.80	32.60	26.50	20.30	14.90	10.20	5.60	1.00	0	0	0
380	400	42.00	35.80	29.70	23.50	17.40	12.60	8.00	3.40	0	0	0
400	420	45.20	39.00	32.90	26.70	20.60	15.00	10.40	5.80	1.20	0	0
420	440	48.40	42.20	36.10	29.90	23.80	17.60	12.80	8.20	3.60	0	0
440	460	51.60	45.40	39.30	33.10	27.00	20.80	15.20	10.60	6.00	1.40	0
460	480	55.10	48.60	42.50	36.30	30.20	24.00	17.90	13.00	8.40	3.80	0
480	500	58.90	51.80	45.70	39.50	33.40	27.20	21.10	15.40	10.80	6.20	1.60
500	520	62.70	55.40	48.90	42.70	36.60	30.40	24.30	18.10	13.20	8.60	4.00
520	540	66.50	59.20	52.10	45.90	39.80	33.60	27.50	21.30	15.60	11.00	6.40
540	560	70.30	63.00	55.60	49.10	43.00	36.80	30.70	24.50	18.30	13.40	8.80
560	580	74.10	66.80	59.40	52.30	46.20	40.00	33.90	27.70	21.50	15.80	11.20
580	600	77.90	70.60	63.20	55.90	49.40	43.20	37.10	30.90	24.70	18.60	13.50
600	620	81.70	74.40	67.00	59.70	52.60	46.40	40.30	34.10	27.90	21.80	16.00
620	640	85.50	78.20	70.80	63.50	56.20	49.60	43.50	37.30	31.10	25.00	18.80
640	660	89.30	82.00	74.60	67.30	60.00	52.80	46.70	40.50	34.30	28.20	22.00
660	680	93.10	85.80	78.40	71.10	63.80	56.50	49.90	43.70	37.50	31.40	25.20
680	700	96.90	89.60	82.20	74.90	67.60	60.30	53.10	46.90	40.70	34.60	28.40

(Continued on next page)

MARRIED Persons—BIWEEKLY Payroll Period

(For Wages Paid After June 1982 and Before July 1983)

And the wages are—		And the number of withholding allowances claimed to—										
At least	But less than	0	1	2	3	4	5	6	7	8	9	10 or more
		The amount of income tax to be withheld shall be—										
$700	$720	$100.70	$93.40	$86.00	$78.70	$71.40	$64.10	$56.80	$50.10	$43.90	$37.80	$31.60
720	740	105.30	97.20	89.80	82.50	75.20	67.90	60.60	53.30	47.10	41.00	34.80
740	760	110.10	101.00	93.60	86.30	79.00	71.70	64.40	57.10	50.30	44.20	38.00
760	780	114.90	105.70	97.40	90.10	82.80	75.50	68.20	60.90	53.60	47.40	41.20
780	800	119.70	110.50	101.30	93.90	86.60	79.30	72.00	64.70	57.40	50.60	44.40
800	820	124.50	115.30	106.10	97.70	90.40	83.10	75.80	68.50	61.20	53.90	47.60
820	840	129.30	120.10	110.90	101.60	94.20	86.90	79.60	72.30	65.00	57.70	50.80
840	860	134.10	124.90	115.70	106.40	98.00	90.70	83.40	76.10	68.80	61.50	54.20
860	880	138.90	129.70	120.50	111.20	102.00	94.50	87.20	79.90	72.60	65.30	58.00
880	900	143.70	134.50	125.30	116.00	106.80	98.30	91.00	83.70	76.40	69.10	61.80
900	920	148.60	139.30	130.10	120.80	111.60	102.40	94.80	87.50	80.20	72.90	65.60
920	940	154.00	144.10	134.90	125.60	116.40	107.20	98.60	91.30	84.00	76.70	69.40
940	960	159.40	149.00	139.70	130.40	121.20	112.00	102.70	95.10	87.80	80.50	73.20
960	980	164.80	154.40	144.50	135.20	126.00	116.80	107.50	98.90	91.60	84.30	77.00
980	1,000	170.20	159.80	149.40	140.00	130.80	121.60	112.30	103.10	95.40	88.10	80.80
1,000	1,020	175.60	165.20	154.80	144.80	135.60	126.40	117.10	107.90	99.20	91.90	84.60
1,020	1,040	181.00	170.60	160.20	149.80	140.40	131.20	121.90	112.70	103.50	95.70	88.40
1,040	1,060	186.40	176.00	165.60	155.20	145.20	136.00	126.70	117.50	108.30	99.50	92.20
1,060	1,080	191.80	181.40	171.00	160.60	150.20	140.80	131.50	122.30	113.10	103.80	96.00
1,080	1,100	197.20	186.80	176.40	166.00	155.60	145.60	136.30	127.10	117.90	108.60	99.80
1,100	1,120	202.60	192.20	181.80	171.40	161.00	150.70	141.10	131.90	122.70	113.40	104.20
1,120	1,140	208.90	197.60	187.20	176.80	166.40	156.10	145.90	136.70	127.50	118.20	109.00
1,140	1,160	215.30	203.00	192.60	182.20	171.80	161.50	151.10	141.50	132.30	123.00	113.80
1,160	1,180	221.70	209.40	198.00	187.60	177.20	166.90	156.50	146.30	137.10	127.80	118.60
1,180	1,200	228.10	215.80	203.50	193.00	182.60	172.30	161.90	151.50	141.90	132.60	123.40
1,200	1,220	234.50	222.20	209.90	198.40	188.00	177.70	167.30	156.90	146.70	137.40	128.20
1,220	1,240	240.90	228.60	216.30	204.00	193.40	183.10	172.70	162.30	151.90	142.20	133.00
1,240	1,260	247.30	235.00	222.70	210.40	198.80	188.50	178.10	167.70	157.30	147.00	137.80
1,260	1,280	253.70	241.40	229.10	216.80	204.50	193.90	183.50	173.10	162.70	152.30	142.60
1,280	1,300	260.10	247.80	235.50	223.20	210.90	199.30	188.90	178.50	168.10	157.70	147.40
1,300	1,320	266.50	254.20	241.90	229.60	217.30	205.00	194.30	183.90	173.50	163.10	152.70
1,320	1,340	273.60	260.60	248.30	236.00	223.70	211.40	199.70	189.30	178.90	168.50	158.10
1,340	1,360	281.00	267.00	254.70	242.40	230.10	217.80	205.50	194.70	184.30	173.90	163.50
1,360	1,380	288.40	274.20	261.10	248.80	236.50	224.20	211.90	200.10	189.70	179.30	168.90
1,380	1,400	295.80	281.60	267.50	255.20	242.90	230.60	218.30	206.00	195.10	184.70	174.30
1,400	1,420	303.20	289.00	274.80	261.60	249.30	237.00	224.70	212.40	200.50	190.10	179.70
1,420	1,440	310.60	296.40	282.20	268.00	255.70	243.40	231.10	218.80	206.40	195.50	185.10
1,440	1,460	318.00	303.80	289.60	275.30	262.10	249.80	237.50	225.20	212.80	200.90	190.50
1,460	1,480	325.40	311.20	297.00	282.70	268.50	256.20	243.90	231.60	219.20	206.90	195.90
1,480	1,500	332.80	318.60	304.40	290.10	275.90	262.60	250.30	238.00	225.60	213.30	201.30
1,500	1,520	340.20	326.00	311.80	297.50	283.30	269.10	256.70	244.40	232.00	219.70	207.40
1,520	1,540	347.50	333.40	319.20	304.90	290.70	276.50	263.10	250.80	238.40	226.10	213.80
1,540	1,560	355.00	340.80	326.60	312.30	298.10	283.90	269.70	257.20	244.80	232.50	220.20
1,560	1,580	362.40	348.20	334.00	319.70	305.50	291.30	277.10	263.60	251.20	238.90	226.60
1,580	1,600	369.80	355.60	341.40	327.10	312.90	298.70	284.50	270.20	257.60	245.30	233.00
1,600	1,620	377.20	363.00	348.80	334.50	320.30	306.10	291.90	277.60	264.00	251.70	239.40
1,620	1,640	384.60	370.40	356.20	341.90	327.70	313.50	299.30	285.00	270.80	258.10	245.80
1,640	1,660	392.00	377.80	363.60	349.30	335.10	320.90	306.70	292.40	278.20	264.50	252.20
1,660	1,680	399.40	385.20	371.00	356.70	342.50	328.30	314.10	299.80	285.60	271.40	258.60
1,680	1,700	406.80	392.60	378.40	364.10	349.90	335.70	321.50	307.20	293.00	278.80	265.00
1,700	1,720	414.20	400.00	385.80	371.50	357.30	343.10	328.90	314.60	300.40	286.20	271.90
		37 percent of the excess over $1,720 plus—										
$1,720 and over		417.90	403.70	389.50	375.20	361.00	346.80	332.60	318.30	304.10	289.90	275.60

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To illustrate the use of the income tax withholding table for a biweekly payroll period, assume that a married employee earns $536.80 during that period and that the employee is entitled to three (3) exemptions. The federal income tax to be withheld is $45.90.

Similar withholding tax tables have been prepared for both single and married persons for weekly, biweekly, semimonthly, monthly, and daily or miscellaneous pay periods.

For those school systems which prefer not to use the wagebracket withholding tax tables, the percentage method of income tax withholding may be used. The following percentage method income tax withholding table is taken from pages 6 and 7 of the "Employer's Tax Guide, Circular E (Supplement) published in July 1982:

TABLES FOR PERCENTAGE METHOD OF WITHHOLDING
(For Wages Paid After June 1982 and Before July 1983)

TABLE 1—If the Payroll Period with Respect to an Employee is Weekly

(a) SINGLE person—including head of household:

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $27 0

Over—	*But not over—*		*of excess over—*
$27	—$62	12%	—$27
$62	—$171	$4.20 plus 16%	—$62
$171	—$240	$21.64 plus 20%	—$171
$240	—$325	$35.44 plus 24%	—$240
$325	—$433	$55.84 plus 30%	—$325
$433	—$535	$88.24 plus 34%	—$433
$535		$122.92 plus 37%	—$535

(b) MARRIED person—

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $46 0

Over—	*But not over—*		*of excess over—*
$46	—$117	2%	—$46
$117	—$230	$8.52 plus 16%	—$117
$230	—$356	$26.60 plus 19%	—$230
$356	—$454	$50.54 plus 24%	—$356
$454	—$556	$74.06 plus 27%	—$454
$556	—$658	$101.60 plus 32%	—$556
$658		$134.24 plus 37%	—$658

TABLE 2—If the Payroll Period with Respect to an Employee is Biweekly

(a) SINGLE person—including head of household:

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $54 0

Over—	*But not over—*		*of excess over—*
$54	—$123	12%	—$54
$123	—$342	$8.28 plus 16%	—$123
$342	—$481	$43.32 plus 20%	—$342
$481	—$650	$71.12 plus 24%	—$481
$650	—$865	$111.68 plus 30%	—$650
$865	—$1,069	$176.18 plus 34%	—$865
$1,069		$245.54 plus 37%	—$1,069

(b) MARRIED person—

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $92 0

Over—	*But not over—*		*of excess over—*
$92	—$234	2%	—$92
$234	—$461	$17.04 plus 16%	—$234
$461	—$713	$53.36 plus 19%	—$461
$713	—$908	$101.24 plus 24%	—$713
$908	—$1,112	$148.04 plus 27%	—$908
$1,112	—$1,315	$203.12 plus 32%	—$1,112
$1,315		$268.08 plus 37%	—$1,315

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TABLE 3—If the Payroll Period with Respect to an Employee is Semimonthly

(a) SINGLE person—including head of household:

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $58 0

Over—	But not over—		of excess over—
$58	—$133	12%	—$58
$133	—$371	$9.00 plus 16%	—$133
$371	—$521	$47.08 plus 20%	—$371
$521	—$704	$77.08 plus 24%	—$521
$704	—$938	$121.00 plus 30%	—$704
$938	—$1,158	$191.20 plus 34%	—$938
$1,158		$266.00 plus 37%	—$1,158

(b) MARRIED person—

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $100 0

Over—	But not over—		of excess over—
$100	—$253	12%	—$100
$253	—$499	$18.36 plus 16%	—$253
$499	—$772	$57.72 plus 19%	—$499
$772	—$983	$109.59 plus 24%	—$772
$983	—$1,204	$160.23 plus 27%	—$983
$1,204	—$1,425	$219.90 plus 32%	—$1,204
$1,425		$290.62 plus 37%	—$1,425

TABLE 4—If the Payroll Period with Respect to an Employee is Monthly

(a) SINGLE person—including head of household:

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $117 0

Over—	But not over—		of excess over—
$117	—$267	12%	—$117
$267	—$742	$18.00 plus 16%	—$267
$742	—$1,042	$94.00 plus 20%	—$742
$1,042	—$1,408	$154.00 plus 24%	—$1,042
$1,408	—$1,875	$241.84 plus 30%	—$1,408
$1,875	—$2,317	$381.94 plus 34%	—$1,875
$2,317		$532.22 plus 37%	—$2,317

(b) MARRIED person—

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $200 0

Over—	But not over—		of excess over—
$200	—$506	12%	—$200
$506	—$998	$36.72 plus 16%	—$506
$998	—$1,545	$115.44 plus 19%	—$998
$1,545	—$1,967	$219.37 plus 24%	—$1,545
$1,967	—$2,408	$320.65 plus 27%	—$1,967
$2,408	—$2,850	$439.72 plus 32%	—$2,408
$2,850		$581.16 plus 37%	—$2,850

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(For Wages Paid After June 1982 and Before July 1983)

TABLE 5—If the Payroll Period with Respect to an Employee is Quarterly

(a) SINGLE person—including head of household:

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $350 0

Over—	But not over—		of excess over—
$350	—$800	12%	—$350
$800	—$2,225	$54.00 plus 16%	—$800
$2,225	—$3,125	$282.00 plus 20%	—$2,225
$3,125	—$4,225	$462.00 plus 24%	—$3,125
$4,225	—$5,625	$726.00 plus 30%	—$4,225
$5,625	—$6,950	$1,146.00 plus 34%	—$5,625
$6,950		$1,596.50 plus 37%	—$6,950

(b) MARRIED person—

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $600 0

Over—	But not over—		of excess over—
$600	—$1,519	12%	—$600
$1,519	—$2,994	$110.28 plus 16%	—$1,519
$2,994	—$4,634	$346.28 plus 19%	—$2,994
$4,634	—$5,900	$657.88 plus 24%	—$4,634
$5,900	—$7,225	$961.72 plus 27%	—$5,900
$7,225	—$8,550	$1,319.47 plus 32%	—$7,225
$8,550		$1,743.47 plus 37%	—$8,550

TABLE 6—If the Payroll Period with Respect to an Employee is Semiannual

(a) SINGLE person—including head of household:

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $700 0

Over—	But not over—		of excess over—
$700	—$1,600	12%	—$700
$1,600	—$4,450	$108.00 plus 16%	—$1,600
$4,450	—$6,250	$564.00 plus 20%	—$4,450
$6,250	—$8,450	$924.00 plus 24%	—$6,250
$8,450	—$11,250	$1,452.00 plus 30%	—$8,450
$11,250	—$13,900	$2,292.00 plus 34%	—$11,250
$13,900		$3,193.00 plus 37%	—$13,900

(b) MARRIED person—

If the amount of wages is: / *The amount of income tax to be withheld shall be:*

Not over $1,200 0

Over—	But not over—		of excess over—
$1,200	—$3,038	12%	—$1,200
$3,038	—$5,988	$220.56 plus 16%	—$3,038
$5,988	—$9,268	$692.56 plus 19%	—$5,988
$9,268	—$11,800	$1,315.76 plus 24%	—$9,268
$11,800	—$14,450	$1,923.44 plus 27%	—$11,800
$14,450	—$17,100	$2,638.94 plus 32%	—$14,450
$17,100		$3,486.94 plus 37%	—$17,100

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TABLE 7—If the Payroll Period with Respect to an Employee is Annual

(a) SINGLE person—including head of household:

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $1,400 0

Over—	*But not over—*		*of excess over—*
$1,400	—$3,200	12%	—$1,400
$3,200	—$8,900	$216.00 plus 16%	—$3,200
$8,900	—$12,500	$1,128.00 plus 20%	—$8,900
$12,500	—$16,900	$1,848.00 plus 24%	—$12,500
$16,900	—$22,500	$2,904.00 plus 30%	—$16,900
$22,500	—$27,800	$4,584.00 plus 34%	—$22,500
$27,800	....	$6,386.00 plus 37%	—$27,800

(b) MARRIED person—

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $2,400 0

Over—	*But not over—*		*of excess over—*
$2,400	—$6,075	12%	—$2,400
$6,075	—$11,975	$441.00 plus 16%	—$6,075
$11,975	—$18,535	$1,385.00 plus 19%	—$11,975
$18,535	—$23,600	$2,631.40 plus 24%	—$18,535
$23,900	—$28,900	$3,847.00 plus 27%	—$23,600
$28,900	—$34,200	$5,278.00 plus 32%	—$28,900
$34,200	....	$6,974.00 plus 37%	—$34,200

TABLE 8—If the Payroll Period with Respect to an Employee is Daily Payroll Period or a Miscellaneous Payroll Period

(a) SINGLE person—including head of household:

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $5.40 0

Over—	*But not over—*		*of excess over—*
$5.40	—$12.30	12%	—$5.40
$12.30	—$34.20	$.83 plus 16%	—$12.30
$34.20	—$48.10	$4.33 plus 20%	—$34.20
$48.10	—$65.00	$7.11 plus 24%	—$48.10
$65.00	—$86.50	$11.17 plus 30%	—$65.00
$86.50	—$106.90	$17.62 plus 34%	—$86.50
$106.90	....	$24.56 plus 37%	—$106.90

(b) MARRIED person—

If the amount of wages is: *The amount of income tax to be withheld shall be:*

Not over $9.20 0

Over—	*But not over—*		*of excess over—*
$9.20	—$23.40	12%	—$9.20
$23.40	—$46.10	$1.70 plus 16%	—$23.40
$46.10	—$71.30	$5.33 plus 19%	—$46.10
$71.30	—$90.80	$10.12 plus 24%	—$71.30
$90.80	—$111.20	$14.80 plus 27%	—$90.80
$111.20	—$131.50	$20.31 plus 32%	—$111.20
$131.50	....	$26.81 plus 37%	—$131.50

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TAX SHELTERED ANNUITY PROGRAMS FOR EMPLOYEES OF PUBLIC SCHOOLS

The term tax-sheltered describes any program eligible for tax-deferred treatment and in the United States, a special type of plan is available to employees of school systems. Under Section 501(c)(3) of the Internal Revenue Code a school employee may arrange with the school system to divert a portion of salary before taxes to purchase retirement annuity benefits in accordance with tax-deferral provisions in Sections 403(b) and 415 of the Code and related Treasury Regulations. The principal tax benefit of a tax-sheltered annuity is that the employee is allowed to exclude from gross income the employer's contributions toward the annuity and to postpone the payment of income tax on those contributions until after retirement. At that time, the employee's income probably will be smaller and, therefore, taxed at lower rates.

To invest in a tax-sheltered or tax-deferred annuity, the employee and employer enter into a written agreement under which the employee authorizes a reduction in salary in order to release money for the employer to pay as premiums on an annuity contract that is fully vested in the employee. Within the limits prescribed by law, such premiums are not taxed currently; rather, they and their earnings will be taxed when they are withdrawn during retirement years when income is likely to be in a lower tax bracket. The tax advantage of the salary deduction method as a means of saving for the future does not depend on a lower tax bracket during the retirement years.

The Internal Revenue Service recently ruled that amounts paid into nonprofit organization's Section 403(b) Tax Sheltered Annuity Plan through salary reduction agreements were "wages" for purposes of the Federal Insurance Contributions Act (FICA), even though such amounts were not taxable as wages for income tax purposes. Congress passed legislation requiring this change to be effective only for amounts paid after December 31, 1983.

SOCIAL SECURITY TAX WITHHOLDING (FICA)

Social security (FICA) taxes increased in 1982 to 6.70 percent of the first $32,400 of wages paid in the calendar year, each for employees and employers (a total of 13.4%). Social security employee tax tables for 1982 and 1983 ranging in brackets from $0.00 to $0.08 to $99.93 to $100.00 at 6.70 percent have been prepared in Circular E (Supplement) published in July 1982 by the Department of Treasury Internal Revenue Service.

EMPLOYER-EMPLOYEE RELATIONSHIP

An employer-employee relationship must exist between the school system and the person being paid if federal income taxes are to be withheld from salary payments. For instance, an individual such as an architect, bond attorney, medical doctor, engineer, or outside independent accountant, may be performing services under a contract as a professional consultant. In such a capacity the person would not be an employee of the school system. Therefore, the school system would not withhold taxes. The general rule in determining whether or

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not an individual is an employee of the school system, and therefore subject to withholding tax procedures, is that if a person is an employee, the school system has a right to direct and control his activities and the manner of accomplishing his job.

WAGES SUBJECT TO WITHHOLDING TAX

Wages subject to withholding include compensation for personal services rendered by an employee, whether referred to as salary, wages, vacation pay, sick-leave pay, substitute pay, or other similar title. Generally, all wages and salaries paid are subject to withholding taxes.

SOCIAL SECURITY TAXES (FICA TAXES)

Programs have been worked out where social security or F.I.C.A. coverage is in addition to other retirement plans that may be operated by the school system. Both the employee and the school system, under provisions of the Federal Income Contribution Act, must pay social security taxes based upon the amount of gross earnings of the employee.

RETIREMENT PLANS

Various retirement plans are in operation in school systems throughout the United States and Canada. Deductions are made from the employee's salary in amounts prescribed in the retirement plan. Such retirement plans may be voluntary on the part of the employee or they may be required. If it is a voluntary plan, the employee who elects the plan provides the payroll department with a document requesting that certain amounts be withheld and transmitted to the appropriate officer in charge of the retirement plan. Other retirement plans provide for contributions to be made by the employer and, in such cases, the amount contributed by the employer is an additional employment expense.

OTHER REQUIRED WITHHOLDINGS AND REPORTS

In addition to federal and state income tax requirements upon employees and the school system, city income taxes may also be required to be withheld. And, of course, additional reports are required. School systems either voluntarily or as a result of contractual agreements may be required to provide other kinds of fringe benefits such as life insurance, disability insurance, hospitalization, etc. Other plans may require joint contributions by the employee and the school system. Authorization to add additional payroll deduction plans should be granted by the school board only because cost of administering each program increases the cost of operating the school system.

VOLUNTARY DEDUCTIONS

The school system may serve its employees by withholding from salaries amounts authorized by the employee for certain purposes such as hospitalization and medical insurance plans, or savings bonds. In these cases, it is essential that the employee furnish the payroll department with a written authorization specifying the amount of the periodic deduction and its disposition.

ADVANTAGES OF CENTRAL PAYROLL DEPARTMENT

An advantage of having a central payroll department is that responsibility can be placed for filing all tax reports related to employment not only for federal income taxes withheld and social security taxes but also for each state's employment taxes. For a more comprehensive coverage, reference is made to "Circular E, Employer's Tax Guide", publication 15 (revised October 1981) and its "Employer's Tax Guide, Circular E (Supplement) issued in July 1982 by the Internal Revenue Service, U.S. Department of Treasury.

DEPOSITS OF FEDERAL INCOME TAX WITHHELD AND FICA TAXES

Circular E sets forth dates by which withheld income and FICA taxes are to be deposited. The amount of taxes determines the frequently of deposits. If less than $500 at the end of the calendar quarter, the school district does not have to deposit the taxes. It may pay the taxes to IRS with Form 941 or it may deposit the taxes by the end of the next month. If, at the end of any month the total undeposited taxes are $500 or more but less than $3,000, the school district must deposit the taxes within 15 days after the end of the month. If, at the end of any eighth-monthly period, accumulated total undeposited taxes are $3,000 or more, the school district must deposit the taxes within 3 banking days after the end of the eighth-monthly period. Eighth- monthly periods end on the 3rd, 7th, 11th, 15th, 19th, 22nd, 25th, and last day of each month.

All employers subject to income tax withholding, FICA taxes, or both must file form 941 quarterly. At the close of the calendar quarter, the school system must remit the amount withheld from the employee's salaries for federal income tax and for F.I.C.A. taxes, plus the school district's employee benefits expense for F.I.C.A. tax, to the Internal Revenue Service Center for the region in which the school is located. When remittances are made, the following entry is made in the books of the central payroll fund.

Federal income taxes withheld and payable
Social security taxes payable (F.I.C.A.)
    Cash
  To record quarterly payment of federal income taxes withheld and payment of employee's and employer's F.I.C.A. taxes on Form 941.

QUARTERLY TAX REPORTS REQUIRED

Remittances have to be made by the school system at the close of each calendar quarter on Form 941, Employer's Quarterly Federal Tax Return. It covers taxes withheld from the employee's salaries for federal income tax purposes and the amount withheld for F.I.C.A. taxes plus the employer's F.I.C.A. tax expense. Contributions payable under a federal-state social security coverage agreement should not be deposited with the Internal Revenue Service Center but should be sent to the appropriate state officer. For this purpose, the school system is required to have an employer's identification number which may be secured by filing form SS-4, an application for an indentification number with the nearest field office of the Social Security Administration or Internal Revenue Service.

ANNUAL REPORTS REQUIRED, FORMS W-2 AND W-3

Each year the school system is required to notify each employee individually how much salary has been paid to the employee during the preceding calendar year, what amount was subject to F.I.C.A. taxes, the amount withheld from the employee's salary for F.I.C.A. taxes, and the amount withheld for federal income tax, if any. This information is provided in Form W-2. Other information contained on Form W-2 includes the name, address, and identification number of the school system as well as the name, address, and account number of the employee. Form W-2 is prepared in quadruplicate, two copies of which are submitted to the employee for his use, one copy forwarded to the Internal Revenue Service Center, and one copy retained. Additional copies may be required if state income tax or city income tax is applicable. With the Internal Revenue Service Center's copy of each W-2, the school system is required to file a form W-3, Transmittal of Wages and Tax Statements, with the Internal Revenue Service Center.

SPECIAL SCHOOL PAYROLL PROBLEMS

In many cases a school teacher is employed on a nine-month teaching contract. By agreement between the teacher and the school system, salary payments may be spread over a twelve-month period of time. In such a case, the teacher earns one-ninth of the salary each academic month of service.

The central payroll department, in this case, would bill the funds using its services for one-ninth of the contracted salary amount plus one-ninth of the total employee benefits to be paid by the school system. In response, each month the funds using the central payroll agency fund's services would send a check for the amount owed for the month's service to the central payroll agency fund. In this way the funds using the central payroll services will have fulfilled their contractual obligation to each teacher and staff member by transferring the entire amount due to the teacher to the payroll fund before the close of the fiscal year on June 30, 19--.

The payroll fund will allocate the amount received to the agreed upon twelve-months pay periods. Many advantages accrue to a school system by consolidating the total payroll function into a central payroll fund because the responsibility for allocating amounts earned over a nine-month period to a twelve-month pay period can be centralized and each fund using the central payroll services can be relieved of the duplicating required payroll functions.

COMPENSATED ABSENCES—VESTED INTERESTS

For fiscal years beginning after December 31, 1982, GASB Statement 4, "Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences" is effective. It was issued to provide guidance in application of the requirements of GASB Statement 1 and Statements of Financial Accounting Standards (SFAS) No. 5 and 43 issued by the Financial Accounting Standards Board. GASB Statement 4 adopted the criteria of SFAS 43 for recognizing a liability for compensated absences. SFAS 43 requires employers to accrue a liability for employees' compensation for future absences if all of the following conditions are met:

a. The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered,

b. The obligation relates to rights that accumulate or vest, i.e., those for which the employer has an obligation to make payment even if an employee terminates; thus they are not contingent on the employee's future service,

c. Payment of the compensation is probable, and

d. The amount can be reasonably estimated.

Because the central payroll department is in the best position to compute the amount that accrues each year to employees for vested interests for compensated absences, and, thus, the liability of the school system for compensated absences as each payroll period occurs, the responsibility for computation should be placed in the payroll department.

Upon computation of the amount that is required to meet vested interest claims for compensated absences, the long-term debt account group would record the amount by which the account, Amount To Be Provided for Compensated Absences, and the liability account, Long-Term Compensated Absences Payable is increased or decreased. This assessment should be made at least once each year and the accounts of the General Long-Term Debt Account Group adjusted.

Also, the Central Payroll Department is in the best position to inform each fund of the school system using personal services of employees of the amount that should be included in each fund's budget to pay currently maturing liabilities for compensated absences. In each of these funds using personnel services, expenditure or expense accounts are debited and the current liability is credited to record current costs for compensated absences.

If, in the future, money is provided by each fund using personnel services on a pay-as-you-go basis to a trust fund, that trust fund, in addition to the general long-term debt account group, should record the effect of administering the accumulating compensated absences program upon the financial position and the results of operation of the school system.

The following is taken from GASB Statement 4, "Accounting and Financial Reporting for Claims and Judgments and Compensated Absences", August 1982:

"22) The FASB issued SFAS43 requiring employers to accrue a liability for future vacation, sick and other leave benefits that meet the following conditions: "a) The employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered. "b) The obligation relates to rights that vest or accumulate. "c) Payment of the compensation is probable. "d) The amount can be reasonably estimated.

"23) The council concludes, subject to the accounting and financial reporting distinctions of governmental funds and Expendable Trust Funds, that the criteria of SFAS43 be the guidelines for recognizing a liability for compensated absences.

"24) Liabilities for compensated absences should be inventoried at the end of each accounting period and adjusted to current salary costs.

"25) In governmental funds, the primary emphasis is on the flow of financial resources, and expenditures are recognized on the modified accrual basis. Accordingly, if all conditions of SFAS43 are met, the amount of compensated absences recorded as expenditures in governmental funds shall be the amount accrued during the year that would normally be liquidated with expendable available financial resources.

"26) Since governmental fund balance sheets reflect current liabilities, only the current portion of the liability should be reported in the fund. The current position is the amount left unpaid at the end of the reporting period that normally would be liquidated with expendable available financial resources. The remainder of the liability should be reported in the GLTDAG.

"27) Proprietary funds should follow SFAS43 without modification.

"28) Depending on their purpose, trust funds are accounted for on either the financial flow or capital maintenance measurement focus. Expendable Trust Funds should follow the standards that apply to governmental funds (paragraphs 25 and 26). Nonexpendable Trust and Pension Trust Funds should follow the standards that apply to proprietary funds (paragraph 27)."

THE PROBLEM ARISING FROM THE CONSTRUCTIVE PAYMENT OF WAGES

Changes frequently occur in payroll taxes to be withheld by the school district. With the Economic Recovery Act of 1981, withholding rates were reduced on July 1. In the case of school employees electing to spread a 9-month salary over a 12-month period, the payroll usually is prepared in June for the months of June, July and August ending the contract. Wages are considered to be paid when they are constructively received by the employee, when they are credited to the account of the employee or when they are available to the employee to be drawn upon by him/her at any time. Employment taxes must be withheld on wages by the employer when the wages are paid. Therefore, it is appropriate to use the June tax tables to compute the amount to be withheld for federal income tax purposes.

DIRECT DEPOSITS OR AUTOMATED PAYROLL DEPOSITS

"Direct deposits" or "automated payroll deposits" are becoming very popular. As a method of payment of wages, this can reduce the number of payroll checks the central payroll department issues. If the school system's computer system is compatible with a local bank, the school system can issue one check to that bank with all employee bank accounts to be credited being designated on a diskette. At the same time, the computer can be programmed to produce a separate notice of deposit addressed for mailing to the employee.

THE CENTRAL TREASURY, AN AGENCY FUND

Three variations in the process of issuing checks on school district bank accounts are common:

1. Warrants are drawn by the board upon the treasurer of the governmental unit under which the school system operates. The treasurer of the governmental unit, in turn, draws a check in payment of warrants issued by the school board.
2. A member of the school board or an administrative officer may be appointed treasurer of the board. In such a case, all deposits and checks are cleared through the treasurer. Vouchers may be drawn by prop erly appointed administrative officers of an organizational division of the school system upon the treasurer of the school system. The treasurer of the board, in turn, issues a check on the bank for payment of the voucher.
3. The business manager may be authorized to deposit all money and have authority to draw checks on bank accounts in the name of the board.

Each of these variations is discussed in this chapter.

Warrants drawn on the governmental unit. When warrants are drawn by the school board on the governmental unit under which the board of education operates, each fund of the school system uses a "warrants payable" account instead of an "account payable"or a "vouchers payable" account. Instead of the use of a "cash" account, each fund may establish an account of the same nature entitled "due from the treasury".

When a warrant is issued by the administrative officer of a fund, an expenditure account or other appropriately titled account is debited and warrants payable is credited. When the warrant is signed by the school board treasurer, another entry is made debiting the warrants payable account and crediting the due from the treasury account. At the end of each month, the due from the treasury account in each fund should be reconciled with the school district treasurer's account, and any differences should be settled between the fund and the school district treasurer.

Vouchers drawn on board's treasurer—an agency fund. In this case the office of the treasurer operates as a separate and independent unit in the organizational structure of the school system. It does not work as a unit under the control of the business office. The treasurer is required to maintain accounts which show collections of cash for or from each of the school system's funds and payments made for vouchers drawn upon the treasury by various funds used in operation of the school system. Typical transactions of such a unit are illustrated as follows:

When the treasurer receives cash from the general fund, the treasurer records the following entry:

1	Cash	1,000	
	Due to general fund		1,000
	To record general fund's deposit.		

When the treasurer makes a deposit in banks authorized as depositories of the government unit by the board, the following entry is made:

2	Central Bank	1,000	
	First National Bank	2,000	
	National Bank of Commerce	3,000	
	Cash		6,000
	To record treasurer's daily deposits.		

When the treasurer receives a voucher from the general fund, the following entry is made:

3	Due to general fund	500	
	Vouchers payable		500
	To record vouchers received from the general fund.		

When the voucher is paid by issuance of a check on the bank, the following entry is made:

4	Vouchers payable	500	
	Central Bank		500
	To record payment of voucher.		

At the end of each month or at the end of the fiscal year, the treasurer prepares the following balance sheet:

NEW HOPE SCHOOL DISTRICT
Central Treasury-An Agency Fund
Balance Sheet
(Date)

Assets		
Cash on hand and undeposited		$ 400
Deposits:		
Central Bank	$10,650	
First National Bank	3,620	
National Bank of Commerce	10,330	24,600
Total cash on hand and deposited		$25,000
Liabilities		
Due to the general fund	$ 2,200	
Due to special revenue fund	1,000	
Due to internal service fund	500	
Due capital projects fund	21,300	
Total liabilities		$25,000

At the end of each month a reconciliation should be prepared wherein it is possible to prove that the amount shown by the treasury balance is in agreement with the balance shown in each fund's cash account. Through the preparation of this reconciliation, any errors that might have occurred during the period by the depositor or by the central treasury can be detected and any needed corrections can be made.

The business manager may serve as the treasurer. In this case, a separate bank account may be maintained for each fund. The business manager may be authorized to deposit all money collected to the appropriate fund's bank account and, at the same time, have the authority to sign checks, supported by appropriate documents evidencing each transaction, drawn against the bank accounts of each fund. Internal accounting control requires, however, that there be a separation of duties to prevent one person from having total control over a cash transaction.

ADVANTAGES OF A CENTRAL TREASURY

Some definite advantages accrue through the use of a central treasury operating as an agency fund of the school system. Among them is that cash is centralized under the control of one administrative office. As a result the cash position of the school system can be easily determined at any time during the accounting period. An illustration of a statement of cash position of the central treasury follows:

NEW HOPE SCHOOL DISTRICT
Central Treasury-An Agency Fund
Statement of Cash Position
(Date)

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Internal Service Fund	Total
Cash balance, beginning	$160,000	$30,000	$25,000		$40,000	$255,000
Add:						
Cash receipts, see schedule	40,000	40,000	25,000	$500,000	20,000	625,000
Total cash available for use	$200,000	$70,000	$50,000	$500,000	$60,000	$880,000
Less:						
Cash disbursements, see schedule	75,000	50,000	—	100,000	30,000	255,000
Cash balance, ending (date)	$125,000	$20,000	$50,000	$400,000	$30,000	$625,000

Additional advantages of a central treasury include not only the over-all knowledge of cash position, but by knowing what the cash position is, it may also be possible to meet temporary cash needs of one fund by borrowing from the treasury without going outside to borrow money and incur interest expense. A knowledge of cash position and the immediate need for cash by all funds makes it possible to determine if any excess or idle cash is on hand which could be invested in income-producing certificates of deposit. A maximum of interest earnings is possible through use of the central treasury by investing what would otherwise be idle cash.

When temporarily idle cash for the school system exists, instead of permitting it to remain idle, administrative responsibility can be placed in one person, the central treasurer, to invest idle cash in temporary, income producing, authorized investments. When this is done, the following sequence of transactions is possible:

Temporary investments, certificates of deposit	10,000	
First National Bank		10,000
To record purchase of short-term interest bearing certificate of deposit.		
First National Bank	300	
Due to General Fund		150
Due to Special Revenue Fund		100
Due to Capital Projects Fund		50
To record receipt of semi-annual interest of 3% on certificates of deposit and distribution of earnings to various funds on following basis: general fund, 50%; special revenue fund, 33⅓%; and capital projects fund, 16⅔%.		
First National Bank	10,000	
Temporary investments certificates of deposit		10,000
To record conversion of temporary investment into cash for immediate use.		

The central treasury fund remains an agency fund because it generates neither income nor expenses. Income earned as a result of interest is distributed to each fund of the school system according to the amount of cash each fund had available for temporary investment in certificates of deposit. By use of the central treasury, only one person in the school system is charged with investing idle cash, which eliminates the urgency on the part of each administrative officer in charge of each fund of the school system to invest idle cash individually.

DEPOSITS AND WITHDRAWALS

Even though the business officer may have authority to make deposits and to draw checks on bank accounts maintained in the name of the school system, the procedures illustrated under the section entitled "vouchers drawn on board's treasurer —an agency fund" present more clearly the cash balance of each fund. However, if the business officer has the authority to deposit and withdraw money from the account, an employee within that office should be appointed treasurer in order to provide adequate internal control by permitting a separation of duties related to handling cash.

Some advantages arise from having one officer of the school system charged with the responsibility of carrying out the duties of a centralized treasury. In such a case, one person can be officially designated by the board to have the authority to supervise cash receipt and disbursements, and to prescribe and enforce adequate methods of internal control. Responsibility for administration of each of the other funds used in the operation of the school system can rest with other administrative officers officially designated by the board. In this way adequate safeguards of a school system's financial resources can be established and put into operation.

BANK RECONCILIATIONS

Each month the school system's central treasurer should receive a bank statement with cancelled checks for each of its bank accounts. In the event the unit operates through a treasurer of a governmental unit, each month's statement should be prepared and submitted to the school system showing all transactions completed by the treasurer in the account of the school system. In either case, it is important that a reconciliation be prepared to correct any errors that may have occurred and in order that entries that should be made will be brought to the attention of the governmental unit and the school system for recording.

CENTRAL TAX COLLECTION FUND—AN AGENCY FUND

Many advantages can accrue to a school system by use of an agency fund to serve as the central tax collection agency for all funds. The principal advantage is that all other funds could be relieved of the accounts necessary for the tax collection and the total responsibility could be placed in a designated administrative office. Illustration of the use of a central tax collection fund, an agency fund, follows.

The Agency Fund Accounts:

A.	Taxes receivable, 19....	110,000	
	Estimated uncollectible 19.... taxes		10,000
	Due to general fund		40,000
	Due to special revenue fund		15,000
	Due to debt service fund		20,000
	Due to capital projects fund		25,000
	To record the 19.... tax levy and assessment. Subsidiary ledger accounts are established to record the claim against each property owner.		
B.	Cash	40,000	
	Taxes receivable, 19....		40,000
	To record collection of 19.... taxes receivable.		
C.	Due to general fund	16,000	
	Due to special revenue fund	6,000	
	Due to debt service fund	8,000	
	Due to capital projects fund	10,000	
	Cash		40,000
	To record distribution of cash on the ratio of net tax revenue to each fund: general fund, 40%; special revenue fund, 15%; debt service fund, 20%; capital projects fund, 25%.		
D.	Penalties and interest on taxes receivable, 19....	1,200	
	Estimated uncollectible penalties and interest on taxes receivable, 19....		200
	Due to general fund		400
	Due to special revenue fund		150
	Due to debt service fund		200
	Due to capital projects fund		250
	To record assessment and levy of penalties and interest on taxes receivable, 19...., of which $200 was estimated to be uncollectible.		
E.	Cash	50,800	
	Taxes receivable, 19....		50,000
	Penalties and interest on taxes receivable, 19....		800
	To record collection of $50,000 of 19.... taxes receivable and $800 of penalties and interest on taxes receivable, 19.....		
F.	Due to general fund	20,320	
	Due to special revenue fund	7,620	
	Due to debt service fund	10,160	
	Due to capital projects fund	12,700	
	Cash		50,800
	To record distribution of cash on ratio of 40:15:20:25 to funds, respectively.		

A trial balance of the central tax collection fund would appear as follows:

NEW HOPE SCHOOL SYSTEM
Central Tax Collection Fund
An Agency Fund
Trial Balance
Date

Taxes receivable, 19....	$20,000	
Estimated uncollectible taxes receivable, 19....		$10,000
Penalties and interest on taxes receivable, 19....	400	
Estimated uncollectible penalties and interest on taxes receivable, 19....		200
Due to general fund		4,080
Due to special revenue fund		1,530
Due to debt service fund		2,040
Due to capital projects fund		2,550
	$20,400	$20,400

Illustrative transactions for the central tax collection fund continue as follow:

G.	Estimated uncollectible taxes receivable, 19....	5,000	
	Estimated uncollectible penalties and interest on taxes receivable, 19....	100	
	Taxes receivable, 19....		5,000
	Penalties and interest on Taxes receivable, 19....		100
	To record write off of 19.... taxes receivable of $5,000 and $100 of penalties and interest receivable on 19.... taxes per authorization of the board of education.		
H.	Cash	8,200	
	Taxes Receivable, 19....		8,000
	Penalties and interest on taxes receivable, 19....		200
	To record collection of taxes and penalties and interest on 19.... taxes.		
I.	Due to general fund	3,280	
	Due to special revenue fund	1,230	
	Due to debt service fund	1,640	
	Due to capital projects fund	2,050	
	Cash		8,200
	To record distribution of cash on the ratio of 40:15:20:25, respectively.		

J.	Cash	3,000	
	Taxes receivable, 19....		3,000
	To record collection of 19.... taxes receivable.		
K.	Estimated uncollectible taxes receivable, 19....	4,000	
	Estimated uncollectible penalties and interest on taxes receivable, 19....	100	
	Taxes receivable, 19....		4,000
	Penalties and interest on taxes receivable, 19....		100
	To write off $4,000 of 19.... taxes receivable as uncollectible and $100 of penalties and interest on 19.... taxes receivable as uncollectible.		
L.	Estimated uncollectible taxes receivable, 19....	1,000	
	Due to general fund		400
	Due to special revenue fund		150
	Due to debt service fund		200
	Due to capital projects fund		250
	To distribute excess estimate of uncollectible taxes receivable, 19...., to various funds on ratio of 40:15:20:25, respectively.		
M.	Due to general fund	1,200	
	Due to special revenue fund	450	
	Due to debt service fund	600	
	Due to capital projects fund	750	
	Cash		3,000
	To record final distribution of cash and to close all accounts related to the 19.... tax assessment and levy.		

CORRESPONDING ENTRIES

Corresponding entries would be made on the books of each of the funds as affected by transactions related to the 19-- tax assessment and levy. Each of the above transactions, as they affect the general fund, will be recorded in the general journal of the general fund as follows:

A.	Due from central tax collection fund	40,000	
	Revenue from local sources,		
	Ad valorem taxes		40,000
	To record claim against central tax collection fund for prorata share of 19.... tax assessment and levy.		
C.	Cash	16,000	
	Due from central tax collection fund		16,000
	To record receipt of cash from central tax collection fund.		
D.	Due from central tax collection fund	400	
	Revenue from local sources:		
	Penalties and interest on taxes		400
	To record claim for penalties and interest assessed for 19.... taxes.		
F.	Cash	20,320	
	Due from central tax collection fund		20,320
	To record receipt of cash from central tax collection fund.		

At this time, a trial balance of the general fund's general ledger would appear as follows:

NEW HOPE SCHOOL SYSTEM
General Fund Trial Balance
Date

Cash	$36,320	
Due from central tax collection fund	4,080	
Revenue from local sources:		
Ad valorem taxes		$40,000
Penalties and interest on taxes		400
	$40,400	$40,400

To complete the corresponding entries necessary for the general fund to record all of the transactions that have affected it, the following are needed:

I.	Cash	3,280	
	Due from central tax collection fund		3,280
	To record receipt of cash from central tax collection fund.		
L.	Due from central tax collection fund	400	
	Revenue from local sources: Ad valorem taxes		400
	To record distribution of excess estimate of uncollectible taxes receivable, 19....		
M.	Cash	1,200	
	Due from central tax collection fund		1,200
	To record final collection of cash from 19.... tax assessment and levy.		

These transactions will have effected the general fund's general ledger. The effect of these transactions is presented in the following way:

Cash	40,800	
Revenue from local sources:		
Ad Valorem taxes		40,000
Penalties and interest on taxes		800

INTERIM AND ANNUAL FINANCIAL REPORTING: AGENCY FUNDS

The balance sheets at the beginning of the period and at the end of the period are presented for student activity funds, an agency fund, with changes in assets and liabilities in the comprehensive annual financial report for the year ending June 30, 1981, of Salt Lake City School District, Salt Lake City, Utah, in the following way:

STUDENT ACTIVITIES FUND
(An Agency Fund)

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 1981

	Balance June 30, 1980	Additions	Deductions	Balance June 30, 1981
ASSETS				
Cash	$ 79,448	$6,429	$ —	$ 85,877
Investments	104,717	620	—	105,337
Total	$184,165	$7,049	$ —	$191,214
LIABILITIES				
Due to student organizations	$184,165	$7,049	$ —	$191,214

See notes to financial statements.

A supporting schedule of cash receipts and disbursements accompanies the statement of changes in assets and liabilities for the student activities fund, an agency fund, for Salt Lake City School District as follows:

STUDENT ACTIVITIES FUND
(An Agency Fund)

Schedule of Cash Receipts and Disbursements
Year Ended June 30, 1981

	Cash and Investments June 30, 1980	Cash Receipts	Cash Disbursements	Cash and Investments June 30, 1981
ELEMENTARY SCHOOLS				
Backman	$ 820	$ 1,993	$ 1,681	$ 1,132
Beacon Heights	376	726	591	511
Bennion	2,246	1,615	1,985	1,875
Bonneville	623	6,760	4,914	2,469
Dilworth	2,784	8,414	8,428	2,770
Edison	617	4,906	4,734	789
Emerson	870	924	1,306	488
Ensign	2,124	13,242	12,638	2,728
Franklin	784	1,892	1,539	1,137
Hawthorne	1,361	4,275	5,535	101
Highland Park	5,329	7,200	6,878	5,651
Indian Hills	2,138	12,211	10,969	3,380
Jackson	487	810	1,217	80
Lincoln	883	2,290	2,554	619
Lowell	894	852	1,246	500
Meadowlark	2,141	2,257	1,703	2,695
Mountain View	1,279	4,487	4,398	1,368
Newman	407	2,125	2,106	426
Nibley Park	335	3,940	4,042	233
Parkview	65	7,291	7,393	(37)
Riley	758	1,574	1,417	915
Rose Park	5,225	3,323	3,327	5,221
Rosslyn Heights	713	5,213	4,339	1,587
Uintah	178	6,794	6,245	727
Wasatch	1,156	5,924	5,282	1,798
Washington	3,746	5,574	5,765	3,555
Whittier	1,797	3,443	3,921	1,319
Total	40,136	120,065	116,153	44,038
INTERMEDIATE SCHOOLS				
Bryant	1,769	50,070	48,926	2,913
Clayton	2,333	28,223	25,575	4,981
Glendale	2,007	12,371	12,631	1,747
Hillside	4,865	14,383	15,487	3,761
Jordan	2,858	16,924	15,070	4,712
Northwest	3,645	28,505	27,123	5,027
Total	17,477	150,476	144,812	23,141
SENIOR HIGH SCHOOLS				
East	24,120	270,322	276,673	17,769
Highland	43,844	224,626	217,874	50,596
South	19,993	241,714	248,871	12,836
West	38,595	201,635	197,396	42,834
Total	126,552	938,297	940,814	124,035
Grand Total	$184,165	$1,208,828	$1,201,779	$191,214

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Chapter 19
Agency Funds

QUESTIONS

19-1. Why are agency funds created?

19-2. Agency funds are expendable but they differ from expendable trust funds. Explain.

19-3. Under what circumstances are agency funds created?

19-4. Are budgetary accounts used in accounting for agency funds? Why?

19-5. What information does the payroll department require when a position is filled?

19-6. What business papers serve as a basis for computation of pay?

19-7. For purposes of internal control where should the documents that serve as a basis for pay computation originate?

19-8. What is the name of the W-4 Form and what information does it contain?

19-9. What four types of deductions may be made from gross earnings?

19-10. What two methods are available for use in computing federal income tax withholdings?

19-11. What relationship exists before federal income taxes are to be withheld and what is the general rule for determining whether or not that relationship exists?

19-12. Are two entries required to record social security taxes? If so what are they?

19-13. What does the payroll department need in order to make deductions from the salary of an employee for items other than social security taxes and federal income tax withholdings?

19-14. Can the payroll voucher serve as the book of original entry for a school district?

19-15. Does the school district incur an expense in connection with social security taxes? If so, how is it recorded?

19-16. How often must remittances covering taxes withheld from employees' salaries for federal income taxes, social security taxes, and the employer's contributions under the social security tax program be made? What form is used?

19-17. What information is contained in Form W-2?

19-18. How are the general fund and other operating funds relieved of the accounts necessary to record complete payroll transactions?

CASES AND PROBLEMS

19-1. Responsibility for payroll administration of the Porter School System rests with the central payroll fund. The following account balances were taken from the central payroll fund's trial balance on September 30, 19--:

Due from general fund	$8,688
Due from cafeteria fund	1,532
F.I.C.A. taxes payable	1,080
Federal income taxes withheld and payable	9,140

During the month of October, the following transactions occurred:

A. On October 1, the employer's F.I.C.A. tax liability for September was computed. $918 was applicable to the general fund and $162 was applicable to the cafeteria fund.

B. On October 2, cash was received from the general fund in the amount of $9,606 and from the cafeteria fund in the amount of $1,694.

C. The required monthly deposit of cash for income taxes withheld and for both the employee's and employer's F.I.C.A. taxes was made on October 2.

D. The semimonthly payroll voucher was prepared on October 15 as follows: F.I.C.A. taxes withheld, $540; federal income taxes withheld, $4,570; group hospitalization insurance premiums withheld, $1,250; employee retirement contributions with held, $1,500; teacher retirement contributions withheld, $1,000; savings bond deductions, $300; net payroll, $29,280. Billings against the general fund were computed to be $32,674 and from the cafeteria fund, $5,766.

E. On October 15, cash was received from the general fund in the amount of $24,888 and from the cafeteria fund in the amount of $4,392.

F. Salaries were paid on October 15.

G. The semimonthly payroll voucher was prepared on October 31, identical in amount to the voucher computed in D, above.

H. On October 31, the employer's F.I.C.A. tax liability for October was computed. $918 was applicable to the general fund and $162 was applicable to the cafeteria fund.

I. Cash was received on October 31 as follows: $41,378 from the general fund and $7,302 from the cafeteria fund.

J. Salaries were paid on October 31.
K. The required monthly deposit of cash for income taxes withheld and for both the employee's and employer's F.I.C.A. taxes was made on November 5.

INSTRUCTIONS:

1. Record the foregoing balances and record the transactions in general journal form on the books of the central payroll fund.
2. Post to the general ledger accounts of the central payroll fund and prepare a trial balance as of November 5, 19--.
3. From the above transactions record appropriate general journal entries in the general fund.

19-2. The central treasury of the Algoma School System collects and distributes the proceeds of the tax levy to the various funds of the school district on the following basis: 50% to the general fund, 30% to the debt service fund, and 20 to the special revenue fund. The following account balances in the September 1, 1972 trial balance:

Taxes receivable 1971	$4,000
Estimated uncollectible taxes 1971	1,000
Due to general fund	1,500
Due to debt service fund	900
Due to special revenue fund	600

During the period the following transactions took place:

1. On September 1 the tax levy for 1972 of $500,000 was recorded, of which $10,000 was established to be uncollectible.
2. 1971 taxes in the amount of $500 were collected on September 5.
3. On September 6 cash of $500 was remitted to the funds on the aforementioned basis.
4. On September 20, 1972, taxes of $28,000 were collected and remitted to the funds.
5. $500 of 1971 taxes previously estimated to be uncollectible are now believed to be collectible.
6. On September 30, $2,500 of the 1971 taxes were collected and distributed to the funds.
7. On October 5, $200,000 of the 1972 taxes were collected and remitted to the funds.
8. $100 of 1971 taxes were collected and remitted to the funds on October 15.
9. On October 30, $128,000 of 1972 taxes were collected.

INSTRUCTIONS:

1. Record the balances as of September 1 and the foregoing transactions in general journal form for the central treasury fund.
2. Prepare a trial balance for the central treasury fund as of October 30, 1972.

3. Record the transactions in general journal form as they relate to each of the other three funds.

19-3. The annual Red Cross drive is taking place in the Portage School District. The students of the five schools are collecting for the drive. Daily col lections are turned over to C. Kenneth Arthur, chairman of the district's campaign. He remits cash collections daily to the Red Cross chapter. The money received by Arthur for the first three days is as follows:

	Monday Jan. 5	Tuesday Jan. 6	Wednesday Jan. 7
Northern High School	$207	$200	$205
Central High School	198	210	200
Eastern High School	100	125	116
Southern Junior High School	75	56	63
Towson High School	250	302	275
Total	$830	$893	$859

INSTRUCTIONS:

1. Record the receipt of cash by C. Kenneth Arthur in general journal form.
2. Prepare a trial balance as of January 7, 19--.
3. Record the entry by C. Kenneth Arthur in general journal form to remit the proceeds of the campaign to the Red Cross chapter.

Section 2

Part 5

FINANCIAL STATEMENTS AND REPORTS

INTERIM FINANCIAL STATEMENTS
GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS)
COMPREHENSIVE ANNUAL FINANCIAL REPORTS (CAFR)

INTERNAL ACCOUNTING CONTROL

APPENDIX

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FINANCIAL STATEMENTS AND REPORTS

One of the primary objectives of financial and managerial accounting for school systems is the preparation of financial statements and reports which present reliable and timely information completely and clearly. Regardless of how clearly information may be presented, if it is not presented in time to serve those who need it, accounting serves only a historical purpose.

A highly desirable goal of accounting for elementary and secondary school systems is the design of financial reports that may be readily understood by reasonably intelligent people to facilitate better communication between schools and the public. Accounting is essentially a communication process--thus, three types or levels of accounting reports are used: 1. The accounting forms required by governmental units; 2. The accounting reports prepared by the staff of the business office of the school system which are presented to the school administrative officers who must learn what they contain because they have to work with them regularly; and, 3. The accounting reports presented to the school board and public. A superintendent's success is often measured by the school board as to the extent to which the superintendent can present the information in 1. and 2., above, in the format of 3, above.

WHOSE FINANCIAL STATEMENTS ARE THEY?

Both interim and annual comprehensive financial statements of the school district are the financial statements of the school district—not the financial statements of the outside, independent accountant or auditor. The outside, independent auditor, after completing an examination of the financial statements only expresses an opinion on them. It can be an unqualified opinion, a qualified opinion, or an adverse opinion, or it can be a disclaimer of opinion. An unqualified opinion indicating that the financial statements present fairly the financial position of each fund and account group at the balance sheet date and the results of operation, the changes in fund equity, and the changes in financial position is the type of opinion that a school district should strive to obtain.

With the introduction of the concept of the "organizationwide single audit concept" that is imposed by OMB Circular A-102, Attachment P, boards of education and school business officials may anticipate publication of Industry Audit Guide, Audits of State and Local Governments and Indian Tribal Governments Conducted Under the Audit Requirements of OMB Circular A-102, Attachment P in 1984.

INTERIM FINANCIAL STATEMENTS

The staff of the business office should prepare interim financial statements throughout the fiscal year for use by operating personnel, administrative officers, and the board of education. These statements assist the board in making policy decisions and assist financial administrators in carrying out the financial responsibilities of the board.

The level of reporting focus in this book has been to provide the managerial accounting structure needed throughout the fiscal period to produce meaningful and timely interim financial statements for all funds and account groups used by a school district. The level of reporting with which ASBO is primarily concerned in its "Certificate of Excellence in Financial Reporting by School Systems" is the comprehensive annual financial report because it is the one which has award potential. ASBO feels strongly, however, that interim financial statements, properly and timely presented, are an integral part of the management-stewardship function. Accordingly, copies of interim financial statements are required to be submitted to ASBO by participants in its certificate of excellence in financial reporting program.

Interim financial statements for each fund and account group should be submitted to every member of the board of education and to administrative officers designated by the board prior to the board's regularly scheduled business meeting each month. To provide a basis for comparability, the format of statements should be consistent with the format of the financial statements of each fund and account group in the comprehensive annual financial statements.of the school district. In this way, board members can have an opportunity to compare financial statements and study the financial position and results of operation of each fund and account group as at the end of the preceding month. Thus, the board and its administrative officers can be in a position to make more reasonable decisions during meetings of the board of education than if complete financial data were not available.

For management purposes, it is the financial statements of the individual fund and account group that are essential for financial control. Illustrations of interim financial statements have been presented in the preceding chapters to show how financial statements can be prepared for each fund and account group each month during the fiscal period. Based upon financial statements prepared in accordance with generally accepted accounting principles, the content of interim financial reports should be:

(1) A cover sheet naming the entity, its address, the period covered by the report and the date of the report.
(2) A table of contents.
(3) Combining financial statements of fund types or individual funds and account groups including:
    (a) Formal budgetary funds (governmental funds)
        General Fund
        Special Revenue Funds
        Capital Projects Funds
        Debt Service Funds
    (b) The account groups
        The General Fixed Assets Group of Accounts
        The General Long-Term Debt Group of Accounts
    (c) Proprietary Funds
        Enterprise Funds
        Internal Service Funds
    (d) Fiduciary Funds
        Trust Funds
        Agency Funds

(4) Schedules necessary to demonstrate compliance with legal or other contractual obligations and/or other schedules deemed necessary to lend cohesion and clarity to data presented in the body of the financial statements.

(5) Statistics and other pertinent information useful to management.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT

In March 1979 the Governmental Accounting Standards Board published a document entitled *Governmental Accounting and Financial Reporting Principles (Statement 1).* And the American Institute of Certified Public Accountants (AICPA), in its Statement of Position 80-2 (SOP 80-2), *Accounting and Financial Reporting by Governmental Units* dated June 30, 1980, extended its recognition to also include Statement 1 as an authoritative modification of *Governmental Accounting, Auditing, and Financial Reporting* (GAAFR). In SOP 80-2, the AICPA stated: "...financial statements presented in accordance with Statement 1 are in conformity with generally accepted accounting principles." In Statement 1, GASB states that every governmental unit should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR). The following is an adaptation of Statement 1 and is published by ASBO as a guide to school districts for preparing the CAFR for participating in ASBO's Certificate of Excellence in Financial Reporting by School Systems program:

The comprehensive annual financial report of a school district should be composed of:

"Cover

"The cover of a school system's comprehensive annual report should include this information:

1) Title of "Comprehensive Annual Financial Report"
2) Name and location of school system
3) Fiscal period covered by report.

"The report should be organized into three major sections: introductory; financial; and statistical.

"Introductory section

"This section should include a title page, table of contents, transmittal letter, organization chart and certificate of excellence if previously earned.

"The following information should be shown on the title page:

*Identification as Comprehensive Annual Financial Report
*Legal name of school system
*Address (City and State/Province)
*Fiscal period covered
*Principal officials including:
  1) Officers and members of the board of education
  2) Superintendent of schools or chief school administrator
  3) Major administrative officials by name and title showing area of responsibility.
*Name of official and department issuing report.

"The table of contents should include:
*Identification of three major sections of the report
*Identification of each basic financial statement and each supplemental statement
*Sufficient detail so a reader can locate any statement or exhibit.

"The letter of transmittal should contain pertinent information such as:
*Management's representations as to the adequacy of internal accounting controls and the fairness of financial statement presentation, supplemental and statistical schedules.
*Comments concerning the financial condition of the school system at the end of the fiscal period.
*Significant changes in financial condition during the fiscal period.
*Details of significant financial problems or events.
*Forecast of financial prospects.
*Details of funds not included in report and the reasons for exclusion.
*Details of any reporting terminology used in a particular locality or state.
*Conflicts between legal requirements and generally accepted accounting principles should be explained.

"The transmittal letter should be dated and signed by both the chief financial officer and the chief executive officer.

"Financial section

"The financial section should contain an independent auditor's report, combined statements-overview and combining and individual fund and account group statements and schedules.

"The scope paragraph of the independent auditor's report must clearly specify which financial statements of which fund types and account groups of the reporting entity have been included within the scope of the audit examination.

"The first sentence of the scope paragraph should state that the auditor has examined 'the financial statements,' rather than 'the books and records,' 'the cash transactions' or similar vague references.

"The scope paragraph must also indicate that the examination was performed in accordance with generally accepted auditing standards and whether or not the auditor has performed all audit procedures considered necessary in the circumstances. Details should be given of any procedures which have not been performed and why not. Examples of such cases might include procedures to test the general fixed assets account group or one in which the school system imposed limitations on or prohibited the application of certain auditing procedures. The auditor must indicate in the opinion whether or not the financial statements are presented in conformity with generally accepted accounting principles (GAAP) and must refer to the consistency of application of accounting principles relative to the prior year.

"The auditor should also clearly indicate the extent of the responsibility taken for any supplementary data included in the financial section of the comprehensive annual financial report. It is noted that GASB recommends that the scope of the annual audit include the combining and individual fund and account group financial statements. If the combining and individual fund statements have been subjected to full audit, the scope paragraph of the auditor's report and the table of contents should so indicate. Although presentation of combining and individual fund data is not necessary for fair presentation of the 'basic general purpose statements', GASB believes that this data should be subjected to audit tests and other audit procedures. As a minimum, the auditor can usually state whether such information is 'fairly stated in all material respects in relation to the audited 'basic financial statements' taken as a whole.

"The opinion paragraph must indicate which financial statements of which fund types and/or funds and account groups are covered by the opinion. This can be accomplished by references in the table of contents or to specific page numbers of exhibits.

"The name of the reporting entity and the last day and length of the period covered by the auditor's examination must be clearly identified in both the scope and opinion paragraphs. The opinion should be dated and addressed to the governing board of the school system."

GENERAL PURPOSE FINANCIAL STATEMENTS (GPFS)

The financial section of the comprehensive annual financial report outlined by ASBO continues as follows:

> "The combined statements-overview can also be issued as separate general purpose financial statements containing the minimum financial statements and disclosure required for presentation in accordance with generally accepted accounting principles.
>
> "The statements to be included herein are as follows:
>
> 1) Combined balance sheet—all fund types and account groups
> 2) Combined statement of revenue, expenditure and changes in fund balances—all governmental funds
> 3) Combined statement of revenue, expenditures and changes in fund balances—budget and actual — general and special revenue types (and similar governmental fund types for which annual budgets have been legally adopted)
> 4) Combined statement of revenue, expenses and changes in retained earnings (or equity) —all proprietary fund types.
> 5) Combined statement of changes in financial position—all proprietary fund types
> 6) Notes to the financial statements Trust fund operations may be reported in 2,4 or 5 above as appropriate or separately. Agency funds would not have operating statements."

To illustrate the combined statements-overview, the general purpose financial statements (GPFS), the following are from the comprehensive annual financial report of the Klein Independent School District for the fiscal year ended August 31, 1981, 7200 Spring Cypress Road, Spring, Texas 77379.

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Exhibit 1

KLEIN INDEPENDENT SCHOOL DISTRICT

Combined Balance Sheet—All Fund Types and Account Groups

August 31, 1981

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust & Agency	General Fixed Assets	General Long-Term Debt	1981	1980
Assets										
Cash	$ 205,315	$ (5,322)	$ 6,454	$ 4,868	$ 109,097	$334,639	$ —	$ —	$ 675,051	$ 314,982
Certificates of deposit, cost	5,677,000	—	7,642,000	13,018,951	—	303,697	—	—	26,641,648	44,055,640
Receivables (net, where applicable, of allowances for uncollectables):										
Property taxes (note 2)	863,360	—	555,164	—	—	—	—	—	1,418,524	1,247,067
Texas Education Agency	412,453	—	—	—	—	—	—	—	412,453	120,691
Federal government	—	29,754	—	—	—	—	—	—	29,754	—
Accrued Interest earnings	139,441	—	712,751	—	—	1,414	—	—	853,606	1,018,212
Employees	500	—	—	—	—	—	—	—	500	—
Due from schools	—	—	—	1,577	—	—	—	—	1,577	2,378
Due from other funds (note 7)	3,380	—	—	—	35,000	—	—	—	38,380	—
Inventory (cost)	195,283	—	—	—	42,364	—	—	—	237,647	204,004
Prepaid expenses	—	—	—	—	3,368	—	—	—	3,368	—
Advance to Agents	—	—	—	—	—	12,000	—	—	12,000	—
Fixed assets (net of accumulated depreciation) (note 3)	—	—	—	—	882,137	—	111,732,653	—	112,614,790	90,148,782
Amount available in Debt Service fund	—	—	—	—	—	—	—	8,361,205	8,361,205	8,692,493
Amount to be provided for retirement of general long-term debt	—	—	—	—	—	—	—	82,656,795	82,656,795	88,200,507
Total assets	$7,496,732	$24,432	$8,916,369	$13,045,396	$1,071,966	$651,750	$111,732,653	$91,018,000	$233,957,298	$234,004,756
Liabilities										
Salaries payable	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 37,473
Accounts payable	871,224	—	—	11,755,889	—	36,862	—	—	12,663,975	8,469,173
Loans payable, bus warrants (note 4)	411,316	—	—	—	—	—	—	—	411,316	562,230
Employee withholdings	3,688	—	—	—	—	—	—	—	3,688	—
Due to other funds (note 7)	35,000	129	—	—	—	3,251	—	—	38,380	—
Accumulated sick leave payable (note 1, 11)	66,976	—	—	—	—	—	—	—	66,976	43,065
Deferred revenue	863,360	14,585	555,164	—	15,882	—	—	—	1,448,991	1,309,984
Due to state government	—	962	—	—	—	—	—	—	962	1,433
General obligation bonds payable (note 4)	—	—	—	—	—	—	—	91,018,000	91,018,000	96,893,000
Due to student groups	—	—	—	—	—	251,483	—	—	251,483	203,419
Total liabilities	2,251,564	15,676	555,164	11,755,889	15,882	291,596	—	91,018,000	105,903,771	107,519,777

(continued on page 556)

(continued from page 555)

KLEIN INDEPENDENT SCHOOL DISTRICT
(continued)

Exhibit 1

Combined Balance Sheet—All Fund Types and Account Groups
August 31, 1981

	Governmental Fund Types				Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust & Agency	General Fixed Assets	General Long-Term Debt	1981	1980
Fund Equity										
Contributed capital	—	—	—	—	906,551	—	—	—	906,551	1,386,537
Investment in general fixed assets	—	—	—	—	—	—	111,732,653	—	111,732,653	88,846,200
Retained earnings, unreserved	—	—	—	—	149,533	—	—	—	149,533	14,845
Fund balance:										
Reserved for encumbrances	31,311	—	—	—	—	—	—	—	31,311	—
Reserved for inventory	195,283	—	—	—	—	—	—	—	195,283	162,289
Reserved for debt service	—	—	8,361,205	—	—	—	—	—	8,361,205	8,692,493
Reserved for employee health insurance	—	—	—	—	—	260,946	—	—	260,946	—
Reserved for uninsured property losses	—	—	—	—	—	98,183	—	—	98,183	178,313
Reserved for student scholarships	—	—	—	—	—	1,025	—	—	1,025	—
Unreserved:										
Designated for future construction	—	—	—	1,289,507	—	—	—	—	1,289,507	22,796,792
Undesignated	5,018,574	8,756	—	—	—	—	—	—	5,027,330	4,407,510
Total fund equity	5,245,168	8,756	8,361,205	1,289,507	1,056,084	360,154	111,732,653	—	128,053,527	126,484,979
Total liabilities and fund equity	$7,496,732	$24,432	$8,916,369	$13,045,396	$1,071,966	$651,750	$111,732,653	$91,018,000	$233,957,298	$234,004,756

See accompanying notes to financial statements

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	Governmental Fund Types				Totals (Memorandum Only) Year Ending	
	General	Special Revenue	Debt Service	Capital Projects	8/31/81	8/30/80
Revenues:						
Property taxes	$12,233,259	$ —	$ 8,103,571	$ —	$20,336,830	$16,296,083
Tuition and fees	99,243	—	—	—	99,243	69,345
Interest earnings	957,747	—	3,859,916	—	4,817,663	3,685,720
Other local sources	41,279	3,406	—	5,852	50,537	36,114
State reimbursements	18,898,932	144,085	—	—	19,043,017	16,072,530
County reimbursements	313	—	—	—	313	—
Federal reimbursements	15,334	114,594	—	—	129,928	116,599
Total revenues	32,246,107	262,085	11,963,487	5,852	44,477,531	36,276,391
Other sources:						
Sale of equipment	13,690	—	—	—	13,690	14,081
Sale of bonds	—	—	—	—	—	29,500,000
Adjustment to receivables/payables	—	—	—	—	—	31,521
Operating transfer in	—	—	—	—	—	—
Total revenues and other sources	32,259,797	262,085	11,963,487	5,852	44,491,221	65,821,993
Expenditures:						
Instruction	17,386,616	146,428	—	—	17,533,044	14,284,724
Instructional administration	614,737	118,006	—	—	732,743	569,587
Resource and media	702,780	—	—	—	702,780	609,497
School administration	1,843,479	—	—	—	1,843,479	1,467,415
Guidance and counseling	615,044	—	—	—	615,044	486,393
Attendance services	76,498	—	—	—	76,498	68,447
Health services	157,609	—	—	—	157,609	136,970
Transportation services	1,605,307	—	—	—	1,605,307	1,279,486
Co-curricular services	579,278	—	—	—	579,278	457,935
General administration	1,281,166	—	—	—	1,281,166	1,036,499
Maintenance and operations	6,650,160	—	—	—	6,650,160	4,714,033
Community services	60,649	—	—	—	60,649	32,923
Debt service	—	—	12,294,776	—	12,294,776	7,526,536
Facility Acquisition	—	—	—	21,513,137	21,513,137	8,364,234
Total expenditures	31,573,323	264,434	12,294,776	21,513,137	65,645,670	41,034,678
Other uses:						
Transfer to trust and agency fund	178,313	—	—	—	178,313	—
Reclassification to deferred revenue	—	—	—	—	—	687,410
Total other uses	178,313	—	—	—	178,313	41,722,088
Excess (deficiency) of revenues over expenditures and other uses	508,161	(2,349)	(331,289)	(21,507,285)	(21,332,762)	24,099,905
Fund balance beginning of year	4,737,007	11,105	8,692,494	22,796,792	36,237,398	12,137,493
Fund balance end of year	$ 5,245,168	$ 8,756	$ 8,361,205	$ 1,289,507	$14,904,636	$36,237,398

See accompanying notes to financial statements

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KLEIN INDEPENDENT SCHOOL DISTRICT

Combined Statement Of Revenues, Expenditures, And Changes In Fund Balances—Budget And Actual
All Governmental Fund Types

For the Fiscal Year Ended August 31, 1981

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance-favorable (unfavorable)	Budget	Actual	Variance-favorable (unfavorable)
Revenues:						
Property taxes	$12,200,000	$12,233,259	$ 33,259	$ —	$ —	$ —
Tuition and fees	95,000	99,243	4,243	—	—	—
Interest earnings	700,000	957,747	257,747	—	—	—
Other local sources	35,000	41,279	6,279	3,400	3,406	6
State reimbursements	18,780,128	18,898,932	118,804	158,671	144,085	(14,586)
County reimbursements	300	313	13	—	—	—
Federal reimbursements	—	15,334	15,334	114,595	114,594	(1)
Other sources:						
Sale of equipment	14,000	13,690	(310)	—	—	—
Total revenues and other sources	31,824,428	32,259,797	435,369	276,666	262,085	(14,581)
Expenditures:						
Instruction	17,446,000	17,386,616	59,384	157,165	146,428	10,737
Instructional administration	627,400	614,737	12,663	115,837	118,006	(2,169)
Resource and media	733,800	702,780	31,020	—	—	—
School administration	1,829,400	1,843,479	(14,079)	—	—	—
Guidance and counseling	633,600	615,044	18,556	—	—	—
Attendance services	82,600	76,498	6,102	—	—	—
Health services	162,350	157,609	4,741	—	—	—
Transportation services	1,683,700	1,605,307	78,393	—	—	—
Co-curricular services	579,500	579,278	222	—	—	—
General administration	1,337,000	1,281,166	55,834	—	—	—
Maintenance and operation	6,935,000	6,650,160	284,840	—	—	—
Community services	62,200	60,649	1,551	—	—	—
Debt service:						
Redemption of bonds	—	—	—	—	—	—
Interest and fiscal agent fees	—	—	—	—	—	—
Facility acquisition	—	—	—	—	—	—
Total expenditures	32,112,550	31,573,323	539,227	273,002	264,434	8,568
Other uses:						
Transfer to trust and agency fund	178,313	178,313	—	—	—	—
Total expenditures and other uses	32,290,863	31,751,636	539,227	273,002	264,434	8,568
Excess (deficiency) of revenues and other sources over expenditures and other uses	(466,435)	508,161	974,596	3,664	(2,349)	(6,013)
Fund balance beginning of year	4,737,007	4,737,007	—	11,105	11,105	—
Fund balance end of year	$ 4,270,572	$ 5,245,168	$974,596	$ 14,769	$ 8,756	$ (6,013)

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Debt Service Fund			Capital Projects Fund			Totals Memorandum Only		
Budget	Actual	Variance-favorable (unfavorable)	Budget	Actual	Variance-favorable (unfavorable)	Budget	Actual	Variance-favorable (unfavorable)
$ 8,045,000	$ 8,103,571	$ 58,571	$ —	$ —	$ —	$20,245,000	$20,336,830	$ 91,830
—	—	—	—	—	—	95,000	99,243	4,243
3,317,633	3,859,916	542,283	—	—	—	4,017,633	4,817,663	800,030
—	—	—	5,800	5,852	52	44,200	50,537	6,337
—	—	—	—	—	—	18,938,799	19,043,017	104,218
—	—	—	—	—	—	300	313	13
—	—	—	—	—	—	114,595	129,928	15,333
—	—	—	—	—	—	14,000	13,690	(310)
11,362,633	11,963,487	600,854	5,800	5,852	52	43,469,527	44,491,221	1,021,694
—	—	—	—	—	—	17,603,165	17,533,044	70,121
—	—	—	—	—	—	743,237	732,743	10,494
—	—	—	—	—	—	733,800	702,780	31,020
—	—	—	—	—	—	1,829,400	1,843,479	(14,079)
—	—	—	—	—	—	633,600	616,044	18,556
—	—	—	—	—	—	82,600	76,498	6,102
—	—	—	—	—	—	162,350	157,609	4,741
—	—	—	—	—	—	1,683,700	1,605,307	78,393
—	—	—	—	—	—	579,500	579,278	222
—	—	—	—	—	—	1,337,000	1,281,166	55,834
—	—	—	—	—	—	6,935,000	6,650,160	284,840
—	—	—	—	—	—	62,200	60,649	1,551
5,875,000	5,875,000	—	—	—	—	5,875,000	5,875,000	—
6,425,000	6,419,776	5,224	—	—	—	6,425,000	6,419,776	5,224
—	—	—	22,800,000	21,513,137	1,286,863	22,800,000	21,513,137	1,286,863
12,300,000	12,294,776	5,224	22,800,000	21,513,137	1,286,863	67,485,552	65,645,670	1,839,882
—	—	—	—	—	—	178,313	178,313	—
12,300,000	12,294,776	5,224	22,800,000	21,613,137	1,286,863	67,663,865	65,823,983	1,839,882
(937,367)	(331,289)	606,078	(22,794,200)	(21,507,285)	1,286,915	(24,194,338)	(21,332,762)	2,861,576
8,692,494	8,692,494	—	22,796,792	22,796,792	—	36,237,398	36,237,398	—
$ 7,755,127	$ 8,361,205	$606,078	$ 2,592	$ 1,289,507	$1,286,915	$12,043,060	$14,904,636	$2,861,576

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KLEIN INDEPENDENT SCHOOL DISTRICT

EXHIBIT 4

Combined Statement of Revenues, Expenses, and Changes In Retained Earnings/Fund Balances—All Proprietary Fund Types And Similar Trust Funds

Year Ended August 31, 1981

	Proprietary	Fiduciary	Totals (Memorandum Only)	
	Enterprise Funds	Trust Funds	1981	1980
Operating revenues:				
Sales	$1,759,666	$ —	$1,759,666	$1,414,592
State reimbursements	362,825	—	362,825	338,741
Interest earnings	3,498	26,068	29,566	3,695
Gifts	—	1,000	1,000	—
Contributions	—	211,195	211,195	—
Other	15,250	—	15,250	26,382
Total operating revenues	2,141,239	238,263	2,379,502	1,783,410
Operating expenses:				
Cost of sales	945,109	—	945,109	883,962
Payroll costs	765,665	—	765,665	659,550
Contractual services	62,282	43,138	105,420	62,591
Supplies	138,207	—	138,207	112,498
Travel/in service	31,960	—	31,960	17,280
Insurance	61,097	10,033	71,130	56,631
Fees/awards	12,434	—	12,434	—
Repairs	3,865	—	3,865	2,268
Other	2,329	3,251	5,580	—
Depreciation	54,055	—	54,055	46,754
Total operating expenses	2,077,003	56,422	2,133,425	1,841,534
Income before operating transfer in	64,236	181,841	246,077	(58,124)
Operating transfers in	—	178,313	178,313	—
Net income (loss)	64,236	360,154	424,390	(58,124)
Retained earnings/fund balances (deficit) beginning of year	14,845	—	14,845	72,969
Adjustment to prior year earnings	70,452	—	70,452	—
Retained earnings/fund balance (deficit) end of year	$ 149,533	$360,154	$ 509,687	$ 14,845

See accompanying notes to financial statements

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KLEIN INDEPENDENT SCHOOL DISTRICT

EXHIBIT 5

Combined Statement of Changes in Financial Position
All Proprietary Fund Types and Similar Trust Funds

Year Ended August 31, 1981
With Comparative Totals for August 31, 1980

	Proprietary	Fiduciary	Totals (Memorandum Only)	
	Enterprise Funds	Trust Funds	1981	1980
Sources of working capital:				
Operations:				
Net income	$ 64,236	$360,154	$424,390	$ 11,923
Items not requiring working capital—depreciation	54,055	—	54,055	46,754
Total sources of working capital	118,291	360,154	478,445	58,677
Uses of working capital:				
Net loss from operations	—	—	—	70,047
Acquisition of fixed assets	43,144	—	43,144	13,265
Total uses of working capital	43,144	—	43,144	83,312
Net increase (decrease) in working capital	$ 75,147	$ 360,154	$ 435,301	$(24,635)
Elements of increase (decrease) in working capital:				
Cash	$ 32,100	$ 136,853	$ 168,953	$(17,049)
Certificates of deposit	—	250,000	250,000	—
Due from state government	(35,871)	—	(35,871)	6,246
Accrued interest earnings	—	1,414	1,414	(266)
Prepaid expenses	3,368	—	3,368	—
Cash with paying agents	—	12,000	12,000	—
Inventories	648	—	648	9,242
Due to general fund	—	(3,251)	(3,251)	—
Due from general fund	35,000	—	35,000	—
Salaries payable	37,473	—	37,473	(4,497)
Accounts payable	18,311	(36,862)	(18,551)	(18,311)
Deferred revenue	(15,882)	—	(15,882)	—
Net increase (decrease) in working capital	$ 75,147	$ 360,154	$ 435,301	$(24,635)

See accompanying notes to financial statements

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KLEIN INDEPENDENT SCHOOL DISTRICT

EXHIBIT 6

NOTES TO FINANCIAL STATEMENTS

August 31, 1981

(1) Summary of Significant Accounting Policies

The accounting policies of the Klein Independent School District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

A. Fund Accounting

The accounts of the District are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Each fund or account group has its own set of self-balancing accounts. Revenues and other resources are allocated to the funds or account groups based upon the purposes for which they were established. The various funds are grouped, in the financial statements in this report, into six generic fund types and three broad fund categories as follows:

GOVERNMENTAL FUNDS

General Fund—This is the general operating fund of the District. All activities of the District are accounted for through this fund except those required to be accounted for in another fund.

Special Revenue Fund–This fund was formerly entitled Designated Purpose Fund. It is used by the District to account for State and Federal grants received for specific purposes. These funds are unavailable to the District for purposes other than what the grant provisions specify.

Debt Service Fund–A portion of total advalorem taxes levied by the District is set aside to pay for the payment of general long-term debt principal, interest, and related costs.

Capital Project Fund—This fund is used to account for the proceeds of bond sales and the construction and acquisition of major capital facilities.

PROPRIETARY FUNDS

Enterprise Funds—Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The District has two such funds, the Food Service and Stadium Operating funds. The intent of the Board of Trustees in operating these activities is that the costs (expenses, including depreciation) of providing services to the general public be financed or recovered primarily through user charges.

FIDUCIARY FUNDS

Trust and Agency Funds—These funds are used to account for assets held by the District in a trustee capacity or as an asset for individuals, private organizations, other governments, and/or other funds. The District has four such funds, Employee Health Insurance Trust, Uninsured Property Loss Trust, Scholarship Grant Trust, and Student Activity Funds. Student activity funds are considered an agency fund and the District assumes a custodial role wherein a measurement of results of operations is not involved. The three trust funds are accounted for essentially in the same manner as proprietary funds since capital maintenance is critical.

B. Fixed Assets and Long-Term Liabilities

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Asset Account Group rather than in governmental funds. No depreciation is taken on general fixed assets.

Fixed assets relating to specific proprietary funds are recorded as assets of that fund and depreciation is taken and recorded in the accounts of that proprietary fund. Depreciation expense is computed using the straight-line method, with assets being depreciated over their estimated useful lives usually five to twenty years depending upon the nature of the asset. Fixed assets are recorded at historical costs or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair market value on the date donated.

Long-term liabilities for the District consist of bonds issued to finance construction and acquisition of its facilities. These liabilities are accounted for in the General Long-Term Debt account group, not in the Governmental funds.

The two account groups, General Fixed Assets and the General Long-Term account groups are not "funds." They are concerned only with the measurement of financial position.

C. Basis of Accounting

The District uses two bases of accounting in measuring financial position and results of operations for its various fund types.

1. Modified Accural Basis—This basis is used for the Governmental funds—General, Special Revenue, Debt Service and Capital Projects. Under this system expenditures are generally recognized when the related fund liability is incurred except for principal and interest on general long-term bonds which is recognized when due. Revenues are recognized when they become measurable and their validity seems certain.

   Property taxes are recorded as assets when levied, less a reasonable allowance for uncollectable property taxes. But because their collection within the subsequent accounting year is not assured, they are recorded as deferred revenue rather than revenue. This deferred revenue becomes revenue in the fiscal year in which the taxes are collected.

2. Accrual Basis—This basis is used for the District's Proprietary and Trust funds. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred if measurable.

D. Budgets and Budgetary Accounting

The District uses the same basis of accounting in preparing its individual fund budgets as is used in accounting for its respective funds. The modified accrual basis is used for Governmental funds—General, Special Revenue, Debt Service and Capital Projects. The accrual basis for its proprietary funds—Food Service and Stadium Operating.

The District follows these procedures in establishing budgetary data as reflected in the financial statements:

1. Each school district in the state of Texas must approve a budget for the fiscal year beginning September 1st not later than August 20th. Five day public notice must be given before the meeting held in which the budget is adopted.
2. Official budgets required to be filed with the State Education Agency include only Governmental type funds. Budgets for Proprietary and Fiduciary type funds are not required by the State. The District does prepare budgets for its Proprietary funds as a management and planning tool.
3. Formal budgetary integration is employed as a management control device during the year for all the District's Governmental type funds.
4. Principals and department heads play an important role in budget preparation and management. They are authorized to transfer funds between budget accounts within their organizations except for salary and capital outlay accounts as long as their total budget is not changed. The Board of Trustees reviews all budgets twice a year in a public meeting. Amendments effecting the total budget may be made at this time. A final amended budget is filed with the State Education Agency at the end of the fiscal year.

E. Encumbrances

Encumbrances are recorded in order to reserve that portion of the applicable appropriation during the year. Encumbrances outstanding at year end are reported as reservations of fund balance. At August 31, 1981, only the General fund had outstanding encumbrances amounting to $31,311.

F. Investments

The District invests monies temporarily idle in certificates of deposit or U.S. Treasury Bills. These investments are stated at cost.

G. Inventory

Inventory is valued at last invoice cost. Each acquisition of inventory results in an increase or decrease in value of all like items on hand at the time of receipt. Inventory is recorded as an asset at time of purchase; it is charged out to expense at the time of requisition by the using department. Differences between actual cost and last invoice cost are charged to expense or revenue depending upon whether prices rise or fall each year when a physical inventory is taken.

H. Accumulated Unpaid Vacation, Sick Pay, and Group Health Insurance

Vacation time does not accumulate to employees within the District. Each employee is required to work a specified number of days in accordance with their contract or notice of assignment.

Payment of locally allocated unused sick leave days will be made upon retirement (in accordance with guidelines established by the Teacher Retirement System of Texas) for any unused accumulation of local sick leave up to 30 days, for all employees hired prior to September 3, 1974. An analysis of employees eligible under the Board policy stated above was made during 1980-81 and determined to be $66,976 as of August 31, 1981. The District records this amount as a liability.

Effective June 1, 1981, the District established a self-funded employee health insurance program. A trust fund was established with a $100,000.00 transfer from the District's General fund. The District contributes $30 per month for each employee. Employee paid the added cost for dependent coverage. A stop-loss policy was purchased by the District to protect it from an unusually large claim total during a year. All claims paid and filed as of August 31, 1981, with the paying agent, are reported as expense. The program is treated as a trust fund and the accrual basis of accounting is used. Results of the Employee Health Insurance Trust Fund for the three month period since its establishment is tabulated below:

Balance September 1, 1980	—0—
Additions:	
District Contributions	$251,447
Employee Contributions	54,748
Interest Earnings	7,922
Total additions	314,117
Deductions:	
Employee Claims	33,759
Consultants/claim administration	9,379
Stop-loss Insurance	10,033
Total deductions	53,171
Balance August 31, 1981	$260,946

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I. Uninsured Property Losses

A reserve for self insurance was established by the Board of Trustees in September 1978. An initial amount of $100,000.00 was so allocated from the General fund balance. Each year $5,000.00 plus interest earnings was accumulated in that reserve. These funds were to be used to replace stolen equipment and to cover the District's deductible ($25,000) of its fire and extended coverage policy. During the 1980-81 fiscal year by Board action the accumulated balance in this fund was transferred to a separate fund entitled Uninsured Property Losses. It is treated as a trust fund and the accrual basis of accounting is used. Results of its operations during 1980-81 is tabulated below:

Balance September 1, 1980	—0—
Additions:	
Transfer from General fund	$ 78,313
Contributed from General fund	5,000
Interest Earnings	18,121
Total additions	101,434
Deductions:	
Stolen Equipment Replacement	3,251
Balance August 31, 1981	$ 98,183

J. Pension Fund Liability

The District has no pension fund liability. The Teacher Retirement System of Texas is charged with the responsibility of administering pension funds for all school district employees.

(2) Property Tax

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all property in the District is subject to taxation by the District. Pursuant to a Constitutional Amendment adopted by Texas voters on November 7, 1978, the legislation enacted by the Texas Legislature in its 1979 Regular Session, additional categories and broadened categories of exemptions have become applicable to the District. These categories include property of a religious, educational or charitable character; property of the United States of America, the State of Texas or one of their agencies; certain varying amounts of valuation attributable to residential homesteads of disabled persons, homesteads of persons aged 65 or over and property of disabled veterans or their surviving spouses or children; $5,000 in market value for all resident homesteads; and certain classes of intangible property. In addition, owners of agricultural land may, under certain circumstances, request valuation of such land on the basis of productive capacity rather than market value. For the tax year 1981 the District has exempted or excluded $100,442,826 in assessed valuation from its tax rolls. These exemption totals for the 1981 and two previous years are tabulated below:

	1981 (100%)*	1980 (100%)*	1979 (75%)*
"Tax Relief Amendment" $5,000 exemption for resident homesteads and homestead exemptions of persons 65 years of age or older (up to $10,000 assessed value)	$ 70,451,650	$ 49,155,502	$ 39,342,846
Exemptions granted to disabled veterans, surviving spouses and/or children and certain disabled persons	1,162,500	315,502	212,570
Assessed value exclusion for agricultural land valued on basis of productive capacity	28,828,676	32,568,661	9,374,760
Total	$100,442,826	$ 82,039,665	$ 48,930,176

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*Assessment ratio as officially stated by the Board of Trustees

District's Rights in the Event of Tax Delinquencies

The District has no lien for unpaid taxes on personal property, but does have a lien granted by statute for unpaid taxes on real property which is discharged upon payment. Thereafter, no lien exists in favor of the District until it again levies taxes. In the event a taxpayer fails to make timely payment of his taxes due the District on real property, certain one time penalties are levied in addition to interest which is charged on the unpaid balance until paid; likewise, the District may file suit for the collection thereof and may foreclose such lien in a foreclosure proceeding. The property subject to the District's lien may be sold, in whole or in parcels, pursuant to a court order, to collect the amounts due.

(3) Changes in General Fixed Assets

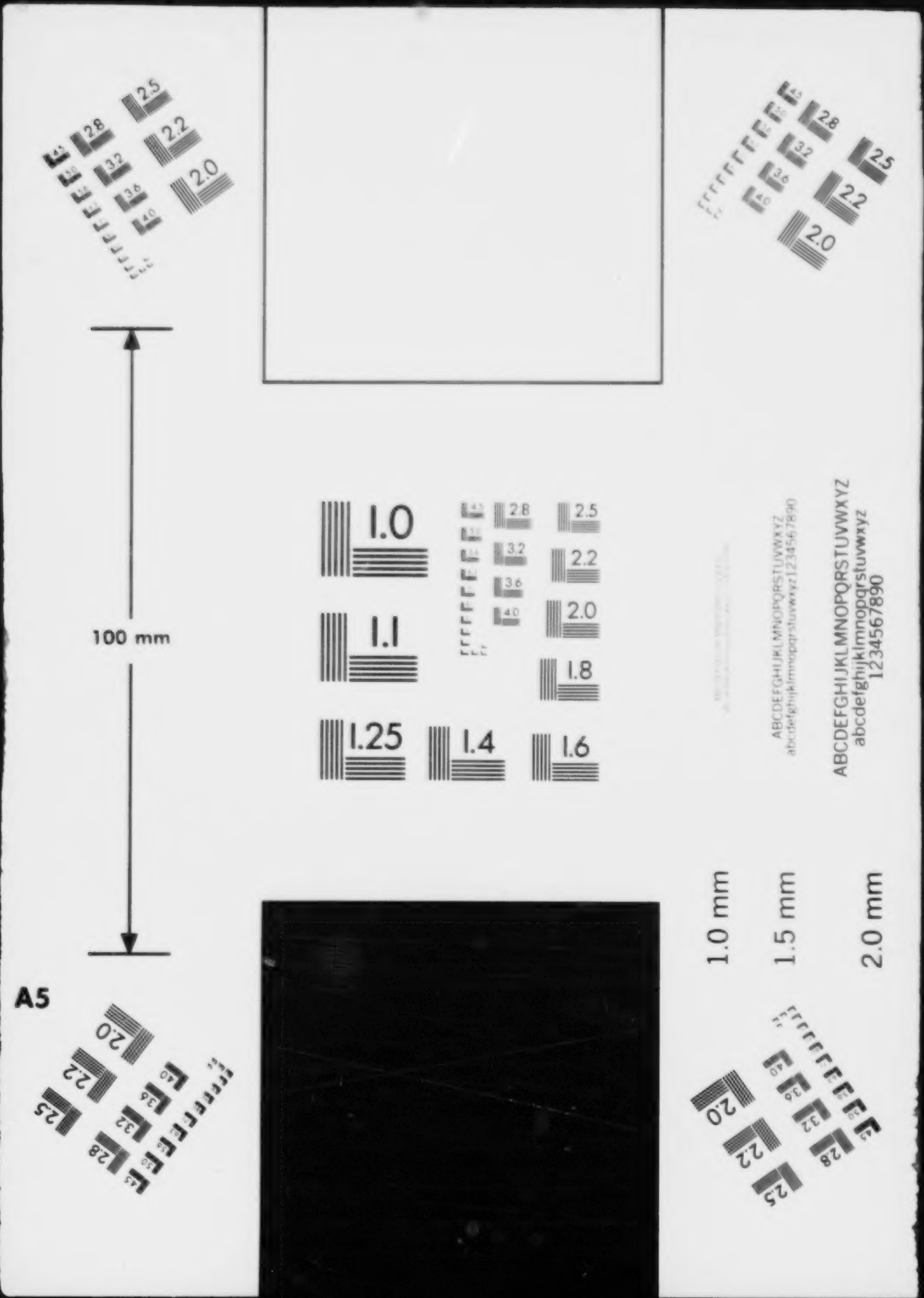
A summary of changes in general fixed assets follows:

	Balance September 1, 1980	Additions	Deletions	Balance September 1, 1981
Sites	$ 4,577,927	$ 137,399	$	$ 4,715,326
Buildings	76,738,828	21,933,059		98,671,887
Equipment	7,529,444	872,593	56,597	8,345,440
Total	$88,846,199	$22,943,051	$56,597	$111,732,653

(4) Changes in Long-Term Debt

The following is a summary of bond transactions of the District for the year ending August 31, 1981.

Bonds payable at September 1, 1980	$96,893,000
Bonds issued during the year	—0—
Bonds retired during the year	5,875,000
Bonds payable at August 31, 1981	$91,018,000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The annual requirements to serve the general long-term bonded debt of the District is shown below:

Year Ended August 31, 1981	Principal	Interest	Total
1982	$ 4,327,000	$ 5,523,233	$ 9,850,233
1983	5,858,000	5,249,827	11,107,827
1984	6,360,000	4,873,925	11,233,925
1985	6,872,000	4,484,136	11,356,136
1986	7,403,000	4,064,203	11,467,203
1987	7,420,000	3,626,668	11,046,668
1988	8,402,000	3,180,726	11,582,726
1989	8,414,000	2,703,875	11,117,875
1990	8,926,000	2,227,863	11,153,863
1991	8,938,000	1,724,450	10,662,450
1992	9,230,000	1,166,763	10,396,763
1993	8,233,000	563,325	8,796,325
1994-1996	635,000	61,375	696,375
Total	$91,018,000	$39,450,369	$130,468,369

The District uses bus warrants to finance the purchase of school buses. At August 31, 1981, a total of $411,316 was outstanding. Payments are scheduled as follows:

Year Ending August 31	Principal	Interest	Total Requirements
1982	$150,914	$18,801	$169,715
1983	126,695	12,468	139,163
1984	85,027	6,984	92,011
1985	48,680	2,887	51,567
	$411,316	$41,140	$452,456

(5) Excesses of Expenditures Over Appropriations in Individual Funds

Appropriations were not exceeded in any District fund.

(6) Deficit Fund Balances or Retained Earnings Balances of Individual Funds

At August 31, 1981, no deficit fund balances or retained earnings balances were existent in any of the District's individual funds.

(7) **Interfund Receivables and Payable Balances**

Such balances are explained below:

Fund	Interfund Receivable	Interfund Payable
General Fund		
Due to Stadium Operating fund for funds placed on certificate of deposit	$	$35,000
Due from Uninsured Property Loss Trust fund for replacement of stolen equipment	3,251	
Due from ESEA Title I & IVB for indirect cost	129	
Proprietary Funds		
Due from General fund for funds invested in certificates of deposit	35,000	
Fiduciary Funds		
Uninsured Property Loss Trust—Due to General fund for replacement of stolen equipment		3,251
Special Revenue Fund		
ESEA Title I & IVB—Due to General fund for indirect cost		129
Total	$38,380	$38,380

(8) **Enterprise Funds**

The District's two enterprise funds, Food Service and Stadium Operating had a good year. Results of their operations are summarized below:

	Food Service	Stadium
Total Operating Revenues	$2,017,037	$124,202
Total Operating Expenses	1,960,367	116,636
Net Income	56,670	7,566
Retained Earnings Beginning of Year	45,050	(30,205)
Adjustment to Prior Year Earnings	—	70,452
Retained Earnings End of Year	$ 101,720	$ 47,813

The stadium was previously carried as an asset of the Stadium Operating fund at a cost of $700,767. This asset was transferred to General Fixed Assets during the 1980-81 fiscal year and its prior depreciation which was charged against the Stadium Operating fund was returned to its retained earnings. The reasoning for this change was that the stadium exists for the benefit of the community and student body and should be treated no differently than any other District facility.

A change in fiscal years was made for both Enterprise Funds during 1980-81. Their previous year end was June 30th. It has been changed to August 31st to concur with the District's other funds. Revenues received prior to August 31st pertaining to the subsequent school year were handled as deferred revenues and expenses incurred in preparation for the forthcoming year were treated as prepaid expenses. Effects of this change on comparability of results of operations in both funds was considered immaterial.

(9) Commitments

Commitments under lease purchase agreements for computer equipment provide minimum annual payments as follows:

Year Ending August 31	Amount
1982	$ 27,135
1983	27,135
1984	27,135
1985	27,135
1986	27,135
Total	$135,675

(10) Litigation

The District is not involved in any litigation as of the data of printing this report that would have financial effects.

To earn a certificate, ASBO's certificate of excellence in financial reporting by school systems requires the following combining and individual fund and account group statements and schedules to be a part of the comprehensive annual financial report (CAFR): [parentheses and brackets added]

"Governmental Fund Types (formal budgetary funds)
- General fund [Illustrated in chapter 10]
    - Balance sheet
    - Statement of revenues, expenditures and changes in fund balances-budget and actual
    - Supplementary schedules to give more details and/or to demonstrate legal compliance.
- Special revenue funds [Illustrated in chapter 11]
    - Combining balance sheet-all special revenue funds
    - Combining statement of revenues, expenditures and changes in fund balances-budget and actual
    - Supplemental individual funds as needed
- Debt service funds [Illustrated in chapter 13]
    - Combining balance sheet
    - Combining statement of revenues, expenditures and changes in fund balances
    - Supplemental individual funds as needed
- Capital projects funds [Illustrated in chapter 12]
    - Combining balance sheet
    - Combining statement of revenues, expenditures and changes in fund balances
    - Supplemental individual funds as needed
- Proprietary fund types
    - Enterprise funds [Illustrated in chapter 16]
        - Combining balance sheet-all enterprise funds
        - Combining statement of revenues, expenses and changes in retained earnings (equity) all enterprise funds
        - Combining statement of changes in financial position-all enterprise funds

        - Supplemental statements (for individual funds as needed, to demonstrate legal compliance, etc.)
    - Internal service funds [Illustrated in chapter 17]
        - (Combining) balance sheet
        - (Combining) statement of revenues, expenses and changes in retained earnings (equity)
        - (Combining) statement of changes in financial position
- Fiduciary fund types
    - Trust and agency funds [Illustrated in chapters 18 and 19]
        - Combining balance sheet-all trust and agency funds
    - Trust funds [Illustrated in chapter 18]
        - Combining statement of revenue, expenditures and changes in fund balance-expendable trust funds
        - Combining statement of revenue, expenses and changes in equity-nonexpendable trust funds
    - Agency Funds [Illustrated in chapter 19]
        - Combining statement of changes in assets and liabilities-all agency funds
- Account groups
    - General fixed assets account group [Illustrated in chapter 14]
        - Statement of general fixed assets
        - Statement of changes in general fixed assets
    - General long-term debt account group [Illustrated in chapter 15]
        - Statement of general long-term debt
    - General supplemental schedules
        - Schedules giving combined or more than one fund type information"

THE STATISTICAL SECTION OF THE CAFR

For those school districts participating in the certificate of excellence program in financial reporting, ASBO suggests that the following kinds of statistical information compose the third section, the statistical section, of the comprehensive annual financial report:

"The statistical section of the report should contain these data:

General school system expenditures by function--last 10 fiscal years (five years required, 10 years recommended)

Property tax levies and collections--last 10 fiscal years (five required, 10 years recommended)

Assessed and estimated actual value of taxable property--last 10 fiscal years (five years required, 10 years recommended)

Property tax rates--all overlapping governments--last 10 fiscal periods (five years required, 10 years recommended)

Ratio of net general bonded debt to assessed value and net bonded debt per capita--last 10 fiscal years (five years required, 10 years recommended)

Computation of legal debt margin

Computation of overlapping debt
Ratio of annual debt service for general bonded debt to total general expenditures--last 10 fiscal years (five years required, 10 years recommended)
Revenue bond coverage--last 10 fiscal years (five years required, 10 years recommended)
Demographic statistics
Property value, construction and bank deposits--last 10 fiscal years (five years required, 10 years recommended)
Principal taxpayers
Miscellaneous statistics

"It should be noted that some of the above financial statements and statistical information may not need to be presented as shown if the same information is contained in the combined overview or general purpose financial statements portion of the financial section."

PURPOSES OF AUDITS OF FINANCIAL STATEMENTS

The purposes served by audits for school districts are to report independently and objectively on the financial position and the results of operation of each fund and account group used in financial administration of the school district. The major purpose of such an examination is to investigate and determine if the financial statements submitted for audit have been prepared in accordance with generally accepted accounting principles and is accomplished by the outside, independent auditor through use of generally accepted auditing standards. Emphasis is placed upon the school district's system of internal control which should be designed to establish and maintain safeguards for conserving and preserving the school district's financial resources and property, to detect intentional or unintentional errors of omission or commission, and to detect fraud.

Financial accounting for elementary and secondary school districts is technical. Limited sources of revenue and restrictions placed upon the purposes for which money may be used make it as complicated as any area of financial and managerial accounting. The present-day accountants for the school district, the internal auditors and independent auditor have to be well trained. Financial accounting, reporting and auditing for elementary and secondary school systems are fields of specialization and time and study is required in order to acquire the knowledge and the ability to apply principles, procedures and standards effectively in practice.

The independent audit's objective is an attestation of the auditor(s) regarding the fairness and reliability of the financial statements. In the form of a written audit report which accompanies the financial statements, the opinion of the auditor(s) is addressed to the board of education. In a sense, the audit report accompanying the school district's financial statements may be viewed as the report card for the board of education and the public about the school district's financial management. To expect management to prepare its own report cards without bias is unreasonable.

THE AUDIT REPORT

So far as the taxpayer and the citizen are concerned, the only tangible evidence of an audit is presented in the auditor's report which accompanies the financial statements and the notes related to them. The auditor's report sets forth the nature or the scope of the examination and contains an expression of an independent, unqualified or qualified opinion, a disclaimer of opinion, or an adverse opinion of the auditor on the school system's accompanying financial statements. The June 30, 1980, Statement of Position 80-2 of the Accounting Standards Division of the American Institute of Certified Public Accountants entitled "Accounting and Financial Reporting by Governmental Units" presents six appendices containing possible opinions that may be rendered by accountants in the United States in the following circumstances:

Auditor's Report: Unqualified Opinion on Combined Financial Statements.

Auditor's Report: Unqualified Opinion on Combined Financial Statements Presented with Combining, Individual Fund, and Account Group Financial Statements and Supporting Schedules.

Auditor's Report: Unqualified Opinion on Combined Financial Statements and Combining, Individual Fund, and Account Group Financial Statements Presented with Supporting Schedules.

Auditor's Report: Qualified Opinion on Combined Financial Statements (One or More Fund Types, Funds, or Account Group Financial Statements Omitted).

Auditor's Report: Adverse Opinion (Omission of Combined Financial Statements) With and Unqualified Opinion on the Individual Fund and Account Group Financial Statements.

Auditor's Report: Unqualified Opinion on an Enterprise Fund's Financial Statements.

The short form audit report is referred to as an unqualified opinion report. It is used by the auditor when there are no exceptions to generally accepted accounting principles of the school district and when no restrictions have been placed by the school district upon the scope of the auditor's examination and the application of generally accepted auditing standards.

The auditor may qualify the opinion if restrictions have been placed by the school district upon the scope of the examination or if the auditor is unable to or makes a decision not to follow usual examination practices, procedures and techniques required by generally accepted auditing standards; if the school system has failed to comply with generally accepted accounting principles, if the school system fails to apply generally accepted accounting principles consistently or if there is uncertainty about one or more material items in the financial statements.

The auditor is required to disclaim an opinion and to set forth the reasons for disclaimer when exceptions or the qualifications are judged sufficiently material to disclaim an opinion.

ADVANTAGES OF OUTSIDE, INDEPENDENT AUDITS

Some of the advantages of audits are as follows:

1. An outside, independent audit adds credibility to the financial statements.
2. The audit tends to discourage fraud and embezzlement on the part of the school district's financial managers and employees.
3. Audited financial statements are required by outside creditors, potential bond holders, and governmental agencies at the state and federal levels. They provide potential creditors a more confident basis for decisions about extending credit. They play an important part in state and federal securities laws.
4. Independent audits frequently include recommendations for improving internal accounting and management controls and tend to minimize errors and irregularities in the accounting records.
5. Audited financial statements provide insurance companies a more confident basis for settling claims for insured losses.
6. Audited financial statements provide unions and the board of education an objective basis for contractual agreements.

Through the use of audited financial statements by outside and independent accountants, the board can make complete and timely financial information about the financial affairs of the school system available to the public. In this way, the board can create and maintain public confidence in the financial administration of the school system.

Examinations made only once every two, three, or four years do not provide the value of timeliness of financial information.

RECOMMENDATIONS FOR BOARD ACTION

The board of education should elect auditors annually. The task of selecting the independent auditors and defining the scope of the engagement should be reserved for the board or for the audit committee composed of board members.

Some boards will find, upon examination, that many shortcomings exist in present accounting and reporting practices and procedures and that adequate financial statements and reports are not being submitted to the board or to the public. Therefore, the question of how to go about getting improved accounting and reporting practices and procedures arises. The board should ask itself whether professional advice and assistance has been sought for the school system. If so, have recommendations for improving accounting and reporting practices and procedures been secured, adopted and put into operation? It is an obligation of the board either (1) to staff the business office with people qualified by education, training, and experience in accounting or (2) to provide in-service training programs for staff members, or (3) to provide adequate technical and professional advice and assistance to the administrative officers of the school system to establish effective and meaningful standards of financial accounting and reporting. In many cases it will be found that the accounting and reporting system has "just grown" and that the only justification for doing a particular task is that "we've always done it like this."

After the board has provided either adequately trained personnel or adequate training opportunities for present personnel, annual examinations should be made to determine that generally accepted accounting principles, practices and procedures are being applied.

COST OF INDEPENDENT AUDITS

In those cases where an adequate system of accounting is in operation and the system of internal control is working effectively, the annual cost of audits by outside independent accountants can be agreed upon by using one of three common methods: the per diem basis, flat fee basis, or maximum fee basis. In either the flat fee or maximum fee type of engagement, a provision generally is included whereby an adjustment can be made in the contract in the event the scope of the engagement has to be extended to cover unforeseen circumstances which might develop.

In those cases where special services have to be rendered in establishing an adequate system of accounting, or where work that should have been done by the staff of the business office has to be done by the staff of the accounting firm, the cost is greater. Once a system of accounting is in operation and an effective system of internal control is established, the work required to be performed by the staff of the accounting firm can be reduced and costs can also be reduced accordingly.

IS A SCHOOL SYSTEM FISCALLY STRONG?

It should be noted that neither an audit nor ASBO's Certificate of Excellence Program establish that a school system is fiscally strong. An unqualified audit opinion on each fund and account group used by a school system states that the financial statements present fairly the financial position, the results of operation, the changes in fund equities, and the changes in financial position. ASBO's Certificate of Excellence Program recognizes that the comprehensive annual financial report is prepared in keeping with generally accepted accounting principles and generally accepted auditing standards. Whether or not a school district is financially strong is an interpretation that must be made by the reader of the financial statements.

DESIRED OBJECTIVE OF FINANCIAL REPORTING

The objective of financial accounting and reporting is to analyze and record financial transactions in a meaningful way. So many limitations are placed upon the way by which money for school systems can be raised and so many strings are attached to the way it can be used for school purposes that simplicity and meaningfulness are difficult to achieve.

It is true that all of the assets and financial resources of a school system could be combined into one fund if all sources of revenue are to be used for general operation and if no strings are attached to any of the money. When these circumstances do not exist, however, the separation of financial transactions into self-balancing groups of accounts which compose the various funds and account groups has been found to be the best way of providing meaningful financial statements and effective financial administration.

In preparing financial statements for the school system, the accountant must keep in mind that not only are the technical objectives of analyzing and recording financial transactions to be achieved, but most important is that meaningful statements and reports are to be prepared for use by the administrators, the board and the public. When statements are presented to the public which convey a full disclosure of financial facts, it is possible to secure the support of the public for achieving desirable educational goals and objectives within limits of financial resources available.

Chapter 20
Financial Statements and Reports

QUESTIONS

20-1. What is one of the primary objectives of financial and managerial accounting for school systems?

20-2. Can financial statements and reports be prepared at times other than at the end of the fiscal period? If so, what is the purpose of such statements?

20-3. What are some of the advantages of outside and independent examinations of the accounts of school systems?

20-4. Who should select the outside independent auditors?

20-5. What is the purpose of audits of the financial accounts of the school system?

20-6. What is the purpose of an audit report?

20-7. Write the short form audit report that can be applied to funds used by a school system.

20-8. By what other term is a short form audit report frequently referred and why is it used?

20-9. What is the purpose of the opinion section of the audit report?

20-10. Why should interim financial statements be submitted to members of the governing board prior to regularly scheduled business meetings?

20-11. What advantage would a school system have in using independent examiners of the accounts?

20-12. Why is it important that financial statements be prepared for each fund and group of accounts used in the operation of a school system?

20-13. What are some matters frequently included in the statistical section of the comprehensive annual financial report?

20-14. What are some of the commonly used bases for estimating costs of audits by outside, independent accountants?

20-15. What device permits a way of providing financial information involving public money most effectively?

CASES AND PROBLEMS

20-1. Accounts in various funds of the West School District on December 31, 19--, appear with balances as indicated on the following:

	GENERAL FIXED ASSETS	SPECIAL REVENUE FUND	TRUST FUND	GENERAL FUND	INTERNAL SERVICE FUND
Accounts payable		$ 35,000	$ 2,000	$ 21,000	$ 40,000
Reserve for encumbrances		17,000		9,000	
Inventories		55,000		12,000	42,000
Contracts payable		12,000		52,000	
Appropriations		34,000			
Interest receivable			8,000		
Due from other units of government		152,000	21,000	65,000	12,000
Investments in general fixed assets:					
From capital projects funds	$245,000				
Due to other units of government		22,000	400	2,700	6,000
Principal, capital or fund equity		200,000	136,200	169,300	76,500
Loans receivable			44,000		
Notes receivable			23,600		
Matured bonds and interest payable					96,000
Cash		72,000	42,000	177,000	2,000
Accounts receivable		41,000			32,000
Land	50,000				10,000
Buildings	160,000				15,000
Improvements other than buildings	35,000				500
Investments					105,000

INSTRUCTIONS:

1. Prepare a balance sheet for each fund as of December 31, 19--.
2. Prepare a combined balance sheet for all funds as of December 31, 19--.

20-2. The following is a combined statement of revenues, expenditures and fund equities for the Anna School District for the year ended December 31, 19--.

THE ANNA SCHOOL DISTRICT
Combined Statement of Revenues, Expenditures and Fund Equities
For the year ended December 31, 19.....

	TOTAL	GENERAL FUND	ENTERPRISE FUND	CAPITAL PROJECTS FUND	DEBT SERVICE FUND
Revenues:					
From local sources:					
Taxation	$1,705,000	$1,600,000			$ 105,000
Transportation fees	15,000	15,000			
Other	3,355,500	1,500,000		$1,805,500	50,000
From state sources	1,490,000	120,000	$1,370,000		
From federal sources	735,500	35,500	530,000		170,000
Sale of lunches	56,000		56,000		
Total revenues	$7,357,000	$3,270,500	$1,956,000	$1,805,500	$ 325,000
Expenditures:					
Administration	$ 601,000	$ 100,000	$ 501,000		
Instruction	2,005,000	2,005,000			
Food services:					
Salaries	161,000		161,000		
Other expenses	1,288,000	54,000	1,234,000		
Fixed charges	238,000				$ 238,000
Capital outlay	2,206,000	551,000		$1,655,000	
Debt service	130,000				130,000
Total expenditures	$6,629,000	$2,710,000	$1,896,000	$1,655,000	$ 368,000
Excess:					
Expenditures over revenues	($ 43,000)				($ 43,000)
Revenues over expenditures	771,000	$ 560,500	$ 60,000	$ 150,500	
Add fund equity, January 1, 19....	4,252,500	1,700,500	422,000	30,000	2,100,000
Fund equity, December 31, 19....	$4,980,500	$2,261,000	$ 482,000	$ 180,500	$2,057,000

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INSTRUCTIONS:

From the combined statement, prepare separate statements of revenues, expenditures, and fund equities for each fund.

20-3. Combined balance sheets for the Anna School District as of the beginning and end of the accounting period are presented below:

	January 1	December 31
Cash	$ 800,000	$2,600,000
Taxes receivable, current (net)	3,296,000	1,842,000
Taxes receivable, delinquent (net)	17,000	12,000
Accounts receivable (net)	80,000	90,000
Loans receivable (net)	–	100,000
Notes receivable (net)	40,000	–
Due from other governmental units	1,400,000	1,200,000
Amount available for retirement of debt and interest	200,000	382,000
Investments, temporary	120,000	480,000
Inventories	484,500	247,500
Total	$6,437,500	$6,953,500
Vouchers payable	$ 5,000	$ 18,000
Contracts payable	20,000	795,000
Bonds payable	1,860,000	1,000,000
Reserve for encumbrances	300,000	160,000
Fund equity	4,252,500	4,980,500
Total	$6,437,500	$6,953,500

Referring to problem 20-2, a combined statement of revenues, expenditures and fund equities is presented in total.

INSTRUCTIONS:

Prepare a combined statement of changes in financial position for all funds as of December 31, 19--.

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INTERNAL ACCOUNTING CONTROL, CASH RECEIPTS AND DISBURSEMENTS

A well-planned accounting system provides a school district with procedures that produce accurate and reliable financial statements and, at the same time, safeguards the assets, financial resources and the integrity of every employee charged with the responsibility of handling money or property. This latter part of the accounting function is known as internal accounting control. By-products of effective internal accounting control are operational efficiency, adherence to established policies, and confidence in the financial administration. Responsibility for its operation extends to every level of authority.

INTERNAL ACCOUNTING CONTROL

To provide adequate internal accounting control, it is necessary for certain procedures to be developed at the operating level to prevent errors from occurring. A most important internal accounting control procedure is double-entry bookkeeping itself, the generally accepted procedure that provides the basis for analyzing, recording and summarizing financial transactions. The double-entry bookkeeping concept makes it possible to analyze and record the effect of all financial transactions on each element of each fund and account group used in the operation of the school system.

In an ideal situation, the work of one employee is verified by the work of another, each working separately and independently. One employee should not have control of a complete financial transaction which includes authorizing the transaction, receiving, disbursing, recording and/or posting the transaction to the accounts. Instead, different employees should participate at various stages in the transaction so that each would arrive at the same results independently and, without unnecessary duplication of work, verify the accuracy of the work of the other. Such a division of duties provides a procedure whereby errors of omission or commission, whether intentional or unintentional, can be minimized.

There are numerous ways of establishing effective and efficient internal accounting controls for a school system. The chart of accounts for each of the funds and account groups indicates the nature of the assets, liabilities, and fund equity accounts, the sources of revenue, and reasons for expenditures. This, in itself, is a control. Combining financial statements, which requires presentation of the financial position of each of the funds as well as presentation of the results of each fund's operation, provides a form of internal control. Comparisons which take into consideration changes that have occurred between one year's financial statements and those of prior years indicate trends and, in this way, some control is provided. In the formal budgetary funds, the use of budgetary accounts which provide for comparisons between estimated revenue and actual revenue and comparisons between appropriations and expenditures plus encumbrances serves as an effective and efficient tool of management control.

The use of an internal auditing department reduces the occurrence of costly, material and time-consuming errors. When an invoice's prices, extensions, and footings can be verified and compared with the transaction's authorization, purchase order, receiving reports, and voucher prior to recording the transaction, significant losses can be avoided. Such a phase of work frequently is referred to as a pre-audit to contrast this internal control procedure with the post-audit conducted by the outside independent accountants.

The extent to which internal control procedures are to be developed depends upon the circumstances surrounding the individual school district, but use of those procedures which provide a system of checks and balances to safeguard the interests of the taxpayer and the financial integrity of the board, its administrative officers, and employees of the school district is important to the effective operation of the school district and to the accomplishment of its educational goals and objectives.

CASH RECEIPTS

There is no financial need greater than that of adequate internal control for cash receipts and disbursements. Cash receipts include all money coming into the possession of each organizational unit of the school system. It is within the function of accounting to establish internal control procedures to safeguard, to record and to report all cash collected by all organizational units. Methods of verification should be provided whereby it is possible to reconcile the amount of cash that should have been collected with the amount actually collected. Once money is collected, evidential matter should be provided to show that it was deposited intact in an authorized depository.

Cash receipts should be deposited intact daily. Regardless of the method of verifying cash receipts, if cash collected is used temporarily or permanently without first being deposited, the purpose of the system of internal control and the effectiveness of its operation are destroyed.

All disbursements, whatever the urgency or nature, should be made only when authorized through the official processes that have been established by the board. Proper authorization may be given by preparation of a prenumbered voucher. To each voucher is attached business papers with authorized signatures which indicate the need, itemize the goods or services, and specify the amount involved in the request for payment. A system of internal control which produces a way by which cash receipts can be verified and traced to the depository in addition to requiring properly executed business documents to support each disbursement provides the bases for safeguarding the integrity of all persons associated with financial transactions of the school system.

To speed the processes related to disbursements of small amounts, a petty cash system may be used. A small amount of money may be entrusted to a custodian of petty cash who is authorized by the board and is given the responsibility to pay small bills from petty cash upon receipt of a properly authorized petty cash voucher. When a petty cash account operates on an imprest system, internal control continues to be effective. A separation of duties between the person who is authorized to approve payments from the petty cash and the person who is custodian of the money provides a basis for adequate internal control.

SOURCES OF CASH RECEIPTS

Some of the sources of cash receipts of a school system are:

1. From the collection of taxes receivable. Taxes receivable was debited and a revenue account was credited at the time of the tax levy. It is important to know what taxes have been assessed and levied if the school system is to know how much cash it should receive. Cash collected from taxes receivable is an example of converting as asset into cash.
2. From collection of a revenue directly without being first recorded in an asset account. For example, when a tuition fee is collected the revenue is realized at the time the cash is collected. If, however, collection is postponed until a later date, a receivable should be set up on the books at the time of the enrollment so that a record is made of the amount that should be collected. In the latter case, the collection of a receivable would be another example of converting an asset into cash, similar to the illustration in item 1, above.
3. From the collection of cash from sources other than revenues. Items 1 and 2, above, gave rise to cash resulting from revenue sources. But all cash received does not result in a revenue to the school system. For example, cash may be received from any of the following sources which do not provide revenue:
   A. From the sale of a fund's assets. Any asset carried in a fund may be sold. Therefore, it is important that the accounting structure include and record all of its assets as an integral part of the accounting structure, particularly if all assets and resources are to be safeguarded. Any change in the balance of an asset account may indicate that cash should have been received and, if that is the case, it is important to determine that the cash actually was received by the school system.

B. From expenditure refunds or rebates. This source of cash receipts arises after a cash payment has been made and a portion of the payment is returned to the school system. It is a difficult source of cash to trace because it arises after all documents indicating a completed transaction have been processed. However, it may arise as a result of a purchase return or allowance. Close coordination of inventory items with receiving reports and shipping orders provides a basis whereby claims can be established for goods damaged or goods returned. If expenditure refunds or rebates, frequently referred to as an abatement of expenditure, occur, the nature of the transaction should be recorded by adjusting the original expenditure charge or by creating accounts that will indicate that an adjustment has been made as a result of a purchase return or allowance.

C. From creation of liabilities. Cash may be received from any source which creates a liability of the school system. For example, one fund may borrow money from another fund, the school system may borrow money from another organizational unit, or promissory notes, tax anticipation notes, or bonds may be issued. In order to provide adequate debt control each, other than those arising from purchases authorized by the purchasing agent, should be authorized and recorded in the minutes of the meetings of the board.

D. From collection of accounts or sales of assets previously written off the books. This can occur in the case of a school system's having written off taxes receivable or when an asset has been retired but is kept in storage. These sources of cash receipts are difficult to trace and here, again, the way by which the board can best safeguard the assets of the school system is by requiring all tax account write-offs or asset dis posal or retirement transactions to be authorized and recorded in the minutes of the meetings of the board.

E. From transfers between funds. A transfer from one fund to another implies that no liability to return the amount is involved on the part of the fund receiving the money. A transfer from one fund to another does not give rise to revenue of the school district, but instead, is a transfer of fund equity.

F. From trust or agency fund receipts. Examples include the collection of cash for purposes such as for the Red Cross, the United Fund, the Community Chest, and for other similar purposes.

ACCOUNTING RECORDS FOR CASH COLLECTIONS

In order that the system of internal control for cash receipts operates effectively, the following records or their equivalent should be used:

Bill forms. When a bill is prepared, in the case of a tax levy for example, it should be prepared in sufficient copies so that the department charged with cash collection and the accounting department will have knowledge of and a control over the amount of cash that is to be collected. Tickets which are prenumbered provide a basis for computing the amount of cash that should be collected in the case of admission tickets, food service tickets, and similar activities.

Receipt forms. A written receipt shows the collection of money and provides information as to the source from which the money was collected. A receipt should be issued for each collection. All receipts should be prenumbered, transferred from person to person in writing, and accounted for by number. The auditors, whether internal, state, federal, or independent, will be concerned over duplicate receipt numbers or missing receipts and will investigate the circumstances surrounding the case. By use of receipt forms, each day the amount of cash that should have been received should be compared with the amount actually received. If differences occur, the cause should be determined and action, if required in the case, should be taken to prevent losses.

Deposit tickets. Cash should be deposited intact daily. When cash receipts are deposited in the bank, a duplicate deposit ticket should be secured from the bank and an entry should be made in the depositor's passbook. Duplicate deposit tickets should be filed for the auditor's use in tracing deposits from the cash receipts book to the bank statement. If the school system operates with a treasury established in the governmental unit under which the board operates, a deposit ticket should be issued by the treasury indicating that the deposit was made, and monthly statements similar to those issued by the bank should be prepared by the treasury and submitted to the school system for reconciliation. Reconciliations of the check stub balance and the cash account balance with the bank statement or with the treasury should be made regularly and they should be brought into agreement.

Special journals. In any organization, financial transactions of a similar kind tend to repeat themselves. When transactions of a similar nature occur, the same accounts are debited or the same accounts are credited. The only difference in repetitious types of transactions may be the amount involved. Therefore, special journals may be designed to record transactions of a similar nature. By recording the transactions in columns specially designed for the transaction, work can be saved by permitting columnar totals to be posted to the general ledger accounts instead of requiring individual amounts to be posted. Even though columnar totals can be posted to the general ledger of a fund, individual amounts have to be posted to subsidiary ledger accounts.

The cash receipts journal is a form of special journal. It does not record all transactions but it records a special type of transaction which tends to be repeated frequently during the accounting period. A cash receipts journal provides for a recording of total debits to the cash account and credits to the accounts determined appropriate by analysis of the transaction. The following is an illustration of a cash receipts journal:

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NEW HOPE SCHOOL SYSTEM

CASH RECEIPTS JOURNAL

FOR MONTH OF ________, 19--

PAGE 1

DATE	EXPLANATION	P. R.	REVENUE FROM FEDERAL SOURCES	REVENUE FROM STATE SOURCES	REVENUE FROM CHARGES FOR SERVICES	REVENUE FROM TUITION	REVENUE FROM REAL ESTATE TAXES	REVENUE FROM PERSONAL PROPERTY TAXES	REVENUE FROM INTERMEDIATE SOURCES	ACCOUNTS RECEIVABLE	TAXES RECEIVABLE	ACCOUNT TITLE	AMOUNT	DEBIT CASH

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There are any number of other transactions that tend to recur in the operation of a school system and special journals can be designed specifically to meet the needs of the individual system. In some cases, forms may be available through a state or provincial governmental department, but in most cases the forms are merely suggested and are not required to be used. Governmental agencies frequently approve revisions in forms to meet individual needs.

When a form is used merely because it is a form, or because it has been used in the past, or because it is a form provided by a governmental agency, accounting can become a matter of rote. Under such circumstances, analysis, recording, and reporting become meaningless and useless as a means of management control. Rigid state and federal requirements that a certain form be used lead often to using such a requirement as a basis for justifying a departure from acceptable accounting procedures and practices which adequately safeguard the school system's property. To serve a school system adequately the purpose of each form should be reviewed periodically and revisions in forms should be encouraged when the revision meets specific management needs.

FIDELITY BONDS

A fidelity bond compensates the school system for known fraud resulting in losses which occur through intentional or unintentional errors of omission or commission of employees in positions of trust. Not only does a fidelity bond on an employee permit recovery in the case of loss but it also tends to prevent losses. Bonding companies are more likely to prosecute when a person is charged with such a loss than the school system would be. In executing a fidelity bond, past employment records of persons covered by the bond are reviewed by the insurer and the employer is notified by the bonding company if the conduct of any of its employees covered has been in question previously. In this way, employment of persons of doubtful integrity is reduced. Four types of fidelity bonds are available to school systems as follows:

Blanket bonds. A blanket bond can be secured to cover all employees who actually handle money or property and it can be extended to cover those who have access to money or property.

Position schedule bond. A position schedule bond can be secured to cover a particular position regardless of who the employee may be who serves the school system in that position.

Name schedule bond. A name schedule bond covers losses that may occur in the case of any employee whose name is listed on the schedule.

Individual bond. An individual bond may be secured to cover losses in the case of a particular or specified person.

CASH DISBURSEMENTS

A large part of the job of safeguarding public money centers around an orderly process by which cash disbursements are made. One thing to be avoided is rushed, unplanned disbursements for goods or services to meet whims and fancies on the spur of the moment. Such action indicates a lack of advance planning, destroys efficient operation of the business office, and creates unnecessary peak work loads which usually result in unnecessary administrative costs. There should be an efficient and organized process, understood by all employees, by which cash disbursements are made. Through advance planning, the objectives of the school system can be achieved in an orderly, well-planned manner. Such an orderly process begins at the time the budget is prepared and continues until payment is made for the goods and services received. It is true that emergency situations occasionally arise, but administrative controls are destroyed when inadequate planning is disguised as an emergency.

One of two procedures is used in the operation of school systems for safekeeping cash disbursements. The governmental unit under which the board of education operates may act as custodian of cash and have a treasury established to account for all cash of the governmental unit, including the school system. However, more frequently the school system has the authority to deposit and withdraw cash from bank accounts in the name of the school district. In the latter case, one member of the board may serve as treasurer of the board. In either case, protective measures make it possible to withdraw cash only when properly prepared vouchers are submitted for payment.

A system of internal control operates best when the treasurer is not in an administrative position which has power to authorize expenditure of money or to make entries in the accounts of the various funds of the school system. The treasurer's position should be one which has the authority to draw a check on the bank accounts of the school system when properly authorized and prepared vouchers are submitted for payment.

The duties and responsibilities of a treasurer may vary greatly. In some school systems the treasurer's office is a fully organized unit that receives cash from all sources and draws checks on the bank accounts. In other cases, the office of treasurer is little more than a depository. This is one point at which emphasis must be placed upon the fact that a "standardized" accounting system cannot be established for all school systems. However, whatever the organizational structure may be, accounting principles and procedures are adaptable to the conditions of the individual case. The size of a school system or the amount of money used in the operation of it does not alter accounting principles.

THE VOUCHER OR WARRANT

A voucher or warrant is a business paper prepared by a staff member of the school system and signed by a person authorized by the board to approve the expenditure of money for the purpose stated in the voucher. When a voucher or warrant is properly prepared and issued, an accounting entry is made in the fund affected. Depending upon the nature of the transaction, an asset, liability, fund equity, revenue or expenditure account is debited, and an account entitled either accounts payable, vouchers payable, or warrants payable is credited. The voucher is submitted to the treasurer of the school system. When a check is drawn in payment of the voucher, a notation is made on the voucher indicating the date paid and the check number used to make payment and a copy marked "paid" is returned to the accounting office. All documents supporting the voucher or warrant should be marked or perforated in such a way as to prevent the possibility of their being used a second time to support a fictitious voucher or warrant. A voucher or warrant marked "paid" gives authority for an accounting entry which debits either accounts payable, vouchers payable, or warrants payable and credits the cash account of the fund affected.

The difference between a voucher and a warrant is that a warrant is the fund's order drawn upon the treasurer of the governmental unit under which the school system operates and a voucher is an order drawn within the school system upon the school district's treasurer. In either case, the voucher or warrant gives the treasurer authority to draw a check on a bank account.

Each voucher or warrant must be properly prepared, supported by business papers that give evidence of a completed transaction, and signed by the person designated by the board to approve such payment. Each voucher should be prenumbered and each should be accounted for through the system of internal control, whether used, voided, or unused.

The voucher or warrant is used to consolidate information about attached invoices. The invoices specify what goods or services have been billed to the school district and a receiving report should be attached to indicate that the goods or services have been received. When the voucher or warrant is signed, it indicates that goods or services covered by the invoice were for items properly contained in the budget, that proper internal control procedures were used to order the goods or services, and that the goods or services have been received and that the debt is justly due. The person signing the voucher is responsible for verification of the facts of the transaction and accuracy of extensions and footings. The voucher serves as a basis for an accounting entry in the voucher register. The voucher register is a form of special journal from which certain information about a transaction can be posted to the accounts in the general ledger of the fund affected in total instead of in individual amounts. An illustration of a voucher register follows:

NEW HOPE SCHOOL SYSTEM
GENERAL FUND
VOUCHER REGISTER

PAGE 1

DATE		P. R.	NAME OF PAYEE	VOUCHER NUMBER	PAID HOW AND WHEN		CREDIT VOUCHERS PAYABLE	ACCOUNT DEBITED	DEBIT AMOUNT
					DATE	CHECK NO			

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CHECK REGISTER

When the voucher register is used, the only way by which payment can be made is through the issuance of a check in payment of a voucher. Therefore, a check register should be used. A check register is a special journal in which all checks issued are recorded. All checks should be pre-numbered and each should be accounted for either as having been used, voided, or unused. An illustration of a check register follows:

NEW HOPE SCHOOL SYSTEM
GENERAL FUND
CHECK REGISTER
PAGE 1

DATE		NAME OF PAYEE	CHECK NUMBER	DEBIT VOUCHERS PAYABLE	CREDIT DISCOUNTS	CREDIT CASH

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A SCHEDULE OF CASH POSITION

A summary schedule is frequently used which shows each fund's cash balance and the total cash of the school system at a certain date. Such a schedule shows what the cash balance of each fund was at the beginning of a period, what cash has been received by the fund during the period, what cash disbursements have been made by the fund during the period, and the balance of each fund's cash account at the end of the period. Transfers of cash from one fund to another can also be shown on the schedule. Such a schedule is referred to as a schedule of cash position and is attached to the interim financial statements of the school district. An illustration of a summary of cash position follows:

Schedule of Cash Position
(Date)

	GENERAL FUND	SPECIAL REVENUE FUND	INTERNAL SERVICE FUND	DEBT SERVICE FUND	CAPITAL PROJECTS FUND	TOTAL
Balance (beginning of period)	$160,000	$30,000	$40,000	$25,000	–	$255,000
Add:						
Cash receipts, per schedule	40,000	40,000	20,000	25,000	500,000	625,000
Total cash available for use	$200,000	$70,000	$60,000	$50,000	$500,000	$880,000
Less:						
Cash disbursements, per schedule	75,000	50,000	30,000	–	100,000	255,000
Balance as at ...., 19....	$125,000	$20,000	$30,000	$50,000	$400,000	$625,000

CASH FORECASTING

The schedule of cash position can be used to meet the need of the school district for a systematic, predictable cash forecasting strategy. The forecast may use historical data which is adjusted by variable factors such as: estimates for inflation, anticipated salary increases and decreases, changing economic conditions affecting the local, state, province and federal governments, anticipated major changes in programs, facilities, personnel, equipment, materials and supplies, etc.

IMPREST PETTY CASH SYSTEM

This chapter has pointed out the necessity for:

1. Providing a proof of the amount of cash that should have been received.
2. Determining the amount of cash actually received.
3. Accounting for any differences and taking what action is appropriate under the circumstances of the case in order to safeguard the resources of the school system.

4. Depositing all cash receipts as soon as practical and intact.
5. Disbursing cash only by check drawn upon a properly prepared voucher or warrant.

If this procedure is followed, there will be no cash on hand. Yet, in the operation of a school system, frequently there is need for a small amount of cash to be on hand in order to pay small bills, the amount of which would not justify the expense involved in preparing a regular voucher or warrant and issuing the check. To meet this need through a system of accounting that does provide adequate internal control, accounting procedures applicable to the imprest petty cash system have been developed.

By resolution of the board, a petty cash system can be established. The resolution should state the amount of the petty cash account. A person is designated as custodian of the petty cash and, based upon resolution of the board, a check in the amount authorized can be drawn and made payable to the petty cash custodian. An entry in the general fund to establish the petty cash account is as follows:

19-			
Jan. 2	Petty Cash	100	
	Vouchers Payable		100
	To record creation of a petty cash account to be operated under principles applicable to the imprest petty cash system.		

When the voucher is paid and a copy of the voucher indicating the check number used to make the payment and the date on which the check was issued is received by the accounting department, the following entry is made:

Jan. 3	Vouchers payable	100	
	Cash		100
	To record payment of voucher.		

At all times the custodian of the petty cash should have either $100 in cash or $100 composed partly of cash and partly of properly prepared and receipted petty cash vouchers. An illustration of a petty cash voucher follows:

NEW HOPE SCHOOL SYSTEM
(Address)
Petty Cash Voucher

No. 1 Date ____________

Pay to ______________________________

For ______________________ Amount ________

Received by: For the Board of Education:

________________ Approved by ________________

The petty cash voucher is not as complex as a regular voucher or warrant but it does require that a person other than the custodian of the petty cash approve a disbursement from the petty cash by signature. The petty cash voucher also provides for the signature of the person to whom cash is paid; this signature serves as evidence that payment was received by that person. Each petty cash voucher should be pre-numbered and each should be accounted for as either having been used, void, or unused.

REPLENISHING PETTY CASH

When the larger part of cash on hand has been disbursed, the custodian may take the paid petty cash vouchers to the person authorized to prepare and issue warrants or vouchers. At that time, a warrant or voucher will be issued in an amount equal to the total of all properly authorized, paid and receipted petty cash vouchers presented. This warrant or voucher gives authority to make the following entry in the general fund:

15	Expenditures	76	
	Vouchers payable		76
	To record expenditure to reimburse petty cash.		

The preceding entry would be based upon an analysis of the purposes for which each petty cash voucher was paid and appropriate expenditure accounts would be debited according to the classification of accounts maintained by the school system.

When notice is received by the accounting department that the voucher has been paid, a general journal entry to record the payment by the general fund is as follows:

16	Vouchers payable	76	
	Cash		76
	To record payment of voucher.		

To avoid a possible loss, even though the amount is small, the custodian of the petty cash is in a trusted position and should be covered by a fidelity bond.

In order to avoid the possibility of over-expending an appropriation, an entry should be made in the general fund to appropriate part of the general fund equity in an amount equal to the total of the petty cash account. Note that the nature of the petty cash account has changed to being an account that will remain the same until it is either increased, decreased or eliminated by action of the board of education.

Chapter 21
Internal Accounting Control, Cash Receipts and Disbursements

QUESTIONS

21-1. What is internal accounting control?

21-2. What are some of the requirements for internal accounting to be effective?

21-3. What is the most important internal control procedure?

21-4. In what area of financial activity of a school system is the need greatest for internal control procedures?

21-5. What records, or their equivalent, should be used in order that a system of internal control for cash receipts operate effectively?

21-6. What is the purpose of special journals?

21-7. What is the purpose of a fidelity bond?

21-8. What are the four types of fidelity bonds available to school systems? Describe each.

21-9. What two procedures may be used in the operation of a school system for safekeeping cash?

21-10. What is a voucher or warrant?

21-11. What is the difference between a voucher and a warrant?

21-12. Outline internal control procedures that should be used by a school system in handling financial transactions involving cash receipts.

21-13. What is a check register?

21-14. Why is a petty cash account necessary?

21-15. Give general journal entries to set up a petty cash account and to replenish the account.

21-16. What three variations are commonly encountered by a school system in the process of issuing a check?

21-17. If the school board central treasury operates as a separate unit in the financial and organizational structure, give general journal entries to record:
a. Receipt of cash by the treasurer from the general fund.
b. The deposit of cash in the bank by the treasurer.

c. The receipt of a voucher.
d. The payment of a voucher.

21-18. Referring to bank reconciliations in chapter 10, why is it important to prepare a bank reconciliation for a school system?

21-19. What are the two most common causes of a difference to exist between the amount shown by the bank or treasury and the amount shown in the cash account of a fund, other than errors, on a given date?

21-20. Outline four steps in preparing a bank reconciliation.

21-21. What is a schedule of cash position?

CASES AND PROBLEMS

21-1. The Superior School District general fund bank statement for March, 19--, indicates a balance of $2,232.50. The check stub balance and the account balance show $1,985.65. A comparison of cancelled checks and memoranda accompanying the bank statement with check stubs reveals the following:

A. Checks outstanding are:
No. 121 for $176.00
No. 135 for $123.25
No. 138 for $ 67.32
No. 157 for $119.28
B. A deposit of $445 is recorded on the books as of March 31 but is not recorded on the bank statement.
C. Bank service charge, $3.25.
D. The bank statement shows a credit on the school district's account for collection of a $350 note receivable left at the bank for collection. No entry has been made on the books of the school district.
E. A deposit of $140.75 has been erroneously recorded a second time on the check stubs and in the account.

INSTRUCTIONS:

Prepare a bank reconciliation as of March 31, 19--.

21-2. Each fund used by the New Hope School District used a voucher register and a check register as part of a system of internal accounting control. The following transactions were completed during October, 19--.

In the general fund:

Oct. 1	Issued voucher no. G101 to the General Supply Co. for purchase of an office desk, $175.
Oct. 5	Issued voucher no. G105 to the Clark Gas Co. for purchase of fuel, $600.

Oct. 11 Issued voucher no. G111 for $50 to establish a petty cash account and issued check number G511 in payment of this voucher.

Oct. 12 Paid voucher no. G101 for $175 with check no. G512.

Oct. 17 Issued voucher no. G117 to the Atlas Electrical Co. for electricity consumed, $360, and issued check no. G513 in payment of this voucher.

Oct. 30 Issued voucher no. G130 to replenish the petty cash fund. Charges were distributed as follows: office supplies, $25; freight in, $7; teaching supplies, $13. Issued check no. G514 for payment of this voucher.

Oct. 31 Issued check no. G515 in payment of voucher no. G105, less a 2% purchase discount.

In the athletic fund, an enterprise fund:

Oct. 1 Issued voucher no. A101 to the Ace Sporting Goods Co. for the purchase of new football uniforms, $1,500.

Oct. 2 Issued voucher no. A102 to the Acme Athletic Co. for the purchase of additional bleachers for the football field, $2,500.

Oct. 5 Check no. A63 was issued in payment of voucher no. A101, less a 2% discount.

INSTRUCTIONS:

1. Prepare a voucher register similar to the one shown and enter the transaction for October, 19--, for both the general fund and the athletic fund.
2. Prepare a check register similar to the one shown in the chapter and record the payments made during the month of October, 19--, for both the general fund and the athletic fund.

21-3. In the internal auditing of the accounts of the School District of Clarkville, the following information was obtained relative to the cash in bank account of the general fund:

Balance of cash in bank account, October 31, 19--, $5,250.25.

Balance of the account per bank statement, October 31, 19--, $3,700.00.

The following checks were outstanding as of October 31, 19--:

Number	Amount
231	$ 17.00
237	5.00
331	21.00
378	67.25
383	30.00
401	105.00
437	106.00

Cash receipts of October 31, 19--, deposited November 1, 19--, $2,500.00.

The bank statement shows the following charges:

A. Service charge of October, $2.50.

B. N.S.F. check received from Mr. Adams for use of building. The check originally was received on October 13 and was deposited on October 14. It was charged to the account of Clarkville School District by the bank on October 28. The amount of the check was $124.00.

Check number 350 for $625.00 was improperly recorded at $250.00 on both the check stub and in the cash payments journal. The check has been issued to purchase teaching supplies.

A credit memorandum dated October 28 for $1,100, representing proceeds of a note receivable left at the bank for collection, had not been recorded in the checkbook or cash receipts journal.

INSTRUCTIONS:

1. Prepare a bank reconciliation for the School District of Clarkville as of October 31, 19--.
2. If journal entries are necessary to bring the accounts of the general fund into agreement with the correct bank balance, record them.

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ACCOUNTING TERMINOLOGY FOR SCHOOL SYSTEMS

Throughout this book, definitions of accounting terms have been given when they were first used. However, for the benefit of those just beginning a study of accounting for school systems and as a quick reference, the following glossary is presented. These terms are common to all areas of governmental accounting, but here their meanings have been pointed to emphasize their application to the area of accounting for school systems specifically.

ABATEMENT: A complete or partial cancellation of a levy imposed by a government unit. Abatement usually applies to tax levies, special assessments and service charges.

ABATEMENT OF EXPENDITURES: Return or cancellation of a part or all of a charge previously made, usually resulting from goods or materials of a quality other than specified for which allowances or refunds are made or which result in a resale of the materials originally purchased. The term can be applied to a loss or damage to property and applies to both current expenditures and capital outlay expenditures. Abatements result in reduction of expenditure accounts only when they occur during the same fiscal period as the expenditure, thereafter they become sources of revenue to the fund.

ABATEMENT OF REVENUE: Return or cancellation of a part or all of any specific revenue previously recorded, usually resulting from a tax refund.

ACCESS: The process of obtaining data from or placing data in storage through computers.

ACCESSORY: An additional part or an added feature which increases the function or adds to the value or capacity of computer equipment without redesigning or altering the basic function of the equipment.

ACCOUNT: A record of transactions affecting a specific item. An account must provide a space for its title, a space for recording increases in the amount of the item, a space for recording decreases in the amount of the item, a space for recording the year, month and date of each transaction, and a space for a posting reference.

ACCOUNT NUMBER: See CODING.

ACCOUNTABILITIES: Those resources for which a person or organization (including a governmental unit) must render an accounting, although not personally liable for them. Even if a trustee has distributed all property confided to his or her care and has been relieved of liability, the trustee is still obligated to account for it.

ACCOUNTING PERIOD: A period of time at the end of which and for which financial statements are prepared. See also FISCAL PERIOD.

ACCOUNTING PROCEDURE: The arrangement of all processes which discover, record and summarize financial information to produce financial statements and reports and to provide internal control.

ACCOUNTING SYSTEM: The total structure of records and procedures which discover, record, classify and report information of the financial position, operations, changes in fund equities, and changes in financial position of a school system or any of its funds, account groups, and organizational components.

ACCOUNTS PAYABLE: Liabilities or amounts owed on open account to private persons, firms, or corporations for goods and/or services received by a school system (but not including amounts due to other funds of the same school system or to other governmental units).

ACCOUNTS RECEIVABLE: Amounts claimed on open account from private persons, firms or corporations for goods and services furnished by a school system (but not including amounts due from other funds of the same school system). Note: Although taxes receivable are covered by this term, they should be recorded and reported separately in TAXES RECEIVABLE accounts. Similarly, amounts due from other funds or from other governmental units should be recorded separately.

ACCRUAL BASIS: The basis of accounting under which revenues are recorded when earned and expenditures are recorded as soon as they result in liabilities for benefits received, notwithstanding that the receipt of the revenue or the payment of the expenditure may take place in whole or in part in another accounting period. See also ACCRUE and LEVY.

ACCRUE: To record revenues when earned and to record expenditures as soon as they result in liabilities for benefits received, notwithstanding that receipt of cash or the payment of the expenditure may take place, in whole or in part, in another accounting period. See also ACCRUAL BASIS, ACCRUED

ASSETS, ACCRUED EXPENSES, ACCRUED LIABILITIES and ACCRUED REVENUES.

ACCRUED ASSETS: Assets arising from revenues earned but not yet collected or due, such as accrued interest receivable.

ACCRUED EXPENSES: Expenses incurred during the current accounting period but which are not payable until a subsequent accounting period. See also ACCRUAL BASIS and ACCRUE.

ACCRUED INCOME: See ACCRUED REVENUE.

ACCRUED INTEREST ON INVESTMENTS PURCHASED: Interest accrued on investments between the last interest payment date and the date of purchase. The account is carried as an asset until the first interest date after the purchase. At that time, an entry is made debiting CASH and crediting the ACCRUED INTEREST ON INVESTMENT PURCHASED account for the amount of interest purchased and an INTEREST EARNINGS account for the balance.

ACCRUED INTEREST PAYABLE: A liability account which represents the amount of interest accrued at the balance sheet date but which is not due until a later date.

ACCRUED LIABILITIES: Amounts owed but not yet due.

ACCRUED REVENUES: Revenue earned during the current accounting period but which is not collected until the following accounting period.

ACCRUED TAXES PAYABLE: A liability for taxes which has accrued since the last payment date but which is not yet due. Normally, this liability will be found in the ENTERPRISE FUND.

ACCRUED WAGES PAYABLE: A liability for wages earned by employees between the last payment date and the balance sheet date but which is not yet due.

ACCUMULATED DEPRECIATION: See ALLOWANCE for DEPRECIATION.

ACCUMULATOR: A part of the logical arithmetic unit of a computer.

ACRONYM: A word created by use of the first letter or letters of the words in a name or phrase.

ACTIVITY: A specific or distinguishable line of work performed by one or more organizational components of a school system for the purpose of accomplishing a function for which the school system is responsible.

ACTIVITY CLASSIFICATION: A grouping of expenditures on the basis of specific lines of work performed by organizational units.

ACTUARIAL BASIS: A basis used in computing the amount to be paid or collected periodically to a fund so that the total plus compounded earnings thereon will equal the required collections or payments of the fund. The factors taken into account in arriving at the amount include the length of time over which each collection or payment is to be made and the rate of return compounded on such amounts over its life. A **TRUST FUND** for a public employee retirement system is an example of a fund set up on an actuarial basis.

ADDRESS: When used with computers, it means a label, name, or number which identifies a register, location, or unit where information is stored.

ADMINISTRATIVE DATA PROCESSING: Usually means business data processing such as the recording, classifying or summarizing of financial transactions or the collection, retrieval, or control of such items.

ADP (Automatic Data Processing): An acronym referring to equipment such as electronic accounting machines, and electronic data processing equipment or data processing by a system of electronic equipment or machines that are interconnected and are interacting to reduce or eliminate the need for human help.

AD VALOREM: In proportion to value. A basis for levy of taxes upon property.

ADMINISTRATION: The performance of executive duties, supervision, direction, correlation or coordination of a function.

ADVANCE FROM THE GENERAL FUND: An account in an **ENTERPRISE** or **INTERNAL SERVICE FUND** which represents the fund's liability to the general fund, possibly for general obligation bonds which have been issued by a school system but whose proceeds have been used to finance facilities and operations of the enterprise fund or internal service fund.

ADVANCE FROM ———————— FUND: A liability account used to represent a long term liability owed by one fund to another fund in the same school system.

ADVANCE TO ———————— FUND: An asset account which represents a long term claim by a fund from another fund of the same school district.

AGENCY FUND: A fund consisting of resources received and held by a school system as an agent for others; for example, taxes collected and held by a school system for another school system. Note: Sometimes resources held by one fund of a school system for other funds of the unit are handled through an **AGENCY FUND**. An example is taxes held by an **AGENCY FUND** for distribution among other funds.

ALLOCATE: To divide a lump-sum appropriation into parts which are designated for expenditure by specific organization units and/or for specific purposes, activities or objectives.

ALLOCATION: A part of a lump-sum appropriation which is designated for expenditure by specific organization unit and/or specific purposes, activities or objects.

ALLOT: To divide an appropriation into amounts which may be encumbered or expended during an allotment period.

ALLOTMENT: A part of an appropriation which may be encumbered or expended during the allotment period.

ALLOTMENT LEDGER: A subsidiary ledger which contains an account for the unallotted appropriation for each purpose and showing the amount allotted periodically throughout the fiscal period, the balance available for additional allotment and other related information.

ALLOTMENT PERIOD: A period of time less than one fiscal year in length during which the allotment is effective. Bimonthly and quarterly allotment periods are common.

ALLOWANCE: A deduction from revenue and assets due to some modifying circumstances. For example, time, usage and damage.

ALLOWANCE FOR DEPRECIATION: The account in which is accumulated the periodic cost of the related asset which has been charged as depreciation expense. It is a contra-asset account. Frequently referred to as accumulated depreciation.

ALLOWANCE FOR DEPRECIATION—BUILDING: The accumulation of periodic credits made to record the expiration in the service life of buildings which is attributable to wear and tear through use and lapse of time, obsolescence, inadequacy or other physical or functional cause. The account is shown in the balance sheets of ENTERPRISE and INTERNAL SERVICE FUNDS as a deduction from BUILDINGS in order to arrive at a book value of buildings. Buildings carried in the accounts of AGENCY or TRUST FUNDS may or may not be depreciated depending on the conditions prevailing in each case. Frequently referred to as accumulated depreciation on buildings.

ALLOWANCE FOR DEPRECIATION—EQUIPMENT: This account serves the same purpose for equipment as the ALLOWANCE FOR DEPRECIATION — BUILDING serves for buildings.

ALLOWANCE FOR UNCOLLECTABLE ACCOUNTS: See ESTIMATED UNCOLLECTABLE ACCOUNTS RECEIVABLE.

ALLOWANCE FOR UNCOLLECTABLE TAXES: An account in which is recorded the amount of taxes estimated to be uncollectable. The balance of this account is shown as a deduction from TAXES RECEIVABLE account to which it relates in the balance sheet.

AMORTIZATION: (1) Gradual reduction, redemption or liquidation of the balance of an account according to a specified schedule of times and amounts. (2) Provision for payment of a debt by use of the DEBT SERVICE FUND.

AMOUNT AVAILABLE IN DEBT SERVICE FUNDS—SERIAL BONDS: An account in the GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS which designates the amount of assets available in the DEBT SERVICE FUND for the retirement of general obligation serial bonds.

AMOUNT AVAILABLE IN DEBT SERVICE FUNDS—TERM BONDS: An account which provides the same information for general obligation TERM BONDS as the AMOUNT AVAILABLE IN DEBT SERVICE FUNDS —SERIAL BONDS does for general obligation SERIAL BONDS.

ANNUAL AUDIT: See AUDIT.

ANNUAL BUDGET: A budget applicable for a single, twelve-month, fiscal year.

ANNUITIES PAYABLE: A liability account which records the amount of annuities due and payable to retired employees in a public employee retirement system.

ANNUITY: A series of equal money payments at equal intervals during a designated period of time. In school accounting the most frequent annuities are accumulations of debt service funds for term bonds and payments to retired employees under public employee retirement systems.

ANNUITY, AMOUNT OF: The total amount of money accumulated or paid during an annuity period from an annuity and compound interest at a designated rate.

ANNUITY PERIOD: The designated length of time during which an amount of annuity is accumulated or paid.

APPORTIONMENT: See ALLOTMENT.

APPRAISAL: (1) The act of appraising. See APPRAISE. (2) The estimated value resulting from such action.

APPRAISE: To make an estimate of value, particularly of the value of property. Note: If the property is valued for the purposes of taxation, the less inclusive term ASSESS is substituted for the above term.

APPROPRIATION: An authorization granted by a legislative body, the school board, to make expenditures and to incur obligations for special purposes. Note: An appropriation is usually limited in purpose, amount, and as to the time when it may be expended.

APPROPRIATION ACCOUNT: A budgetary account set up to record specific authorizations to spend. The account is credited with original and any supplemental appropriations and is charged with reductions due to budgetary restrictions.

APPROPRIATION BILL, ORDINANCE, OR RESOLUTION: A bill, ordinance, or resolution which gives appropriations legal effect. It is a method by which authority is granted by the school board to administrative officers to make expenditures for specific purposes, in limited amounts and for specific periods of time. It is frequently referred to as enactment of the expenditure side of the budget by the school board.

APPROPRIATION EXPENDITURE: An expenditure authorized by the appropriation act. Note: Since all expenditures from a budgetary fund or governmental type fund must be authorized by the appropriation act, the term **EXPENDITURES** by itself is widely and properly used.

APPROPRIATION LEDGER: A subsidiary ledger containing an account for each appropriation. Each account usually shows the amount originally appropriated by the budget, budget increases or decreases during the year. On the same page, expenditure accounts and encumbrance accounts are used for budgetary control to determine the amount of the appropriation free for further commitment, encumbrances or expenditures. If allotments are made and a separate ledger is maintained for them, the appropriations ledger usually shows the amount originally appropriated, budget increases or decreases in the appropriation, the amounts allotted and the unallotted balance of the appropriation.

ARBITRAGE: Buying and selling the same stock, bonds, etc., at the same time in different markets to profit from different prices. A technique employed to take advantage of price differences in separate markets. This is accomplished by purchasing in one market for immediate sale in another at a better price. With regard to municipalities, the proceeds from the sale of tax-free bonds may not be invested in taxable securities merely for the interest value which would be generated. However, the IRS generally allows such advantages to accrue to the municipality under several special conditions, including the requirement that 85% of the proceeds of the bond issue be used for the purpose for which they were issued within three years from issue date.

ASSESS: To value property officially for purposes of taxation. Note: The term is also sometimes used to denote the levy of taxes, but such usage is not correct because it fails to distinguish between the valuation process and the tax levy process.

ASSESSED VALUATION: A valuation set upon real estate or other property by a government as a basis for levying taxes.

ASSESSMENT: (1) The process of making the official valuation of property for purposes of taxation. (2) The valuation placed upon property as a result of this process.

ASSESSMENT ROLL: In the case of real property, the official list containing the legal description of each parcel of property and its assessed valuation. The name and address of the last known owner is usually also shown. In the case of personal property, the assessment roll is the official list containing the name and address of the owner, a description of the personal property and its assessed valuation.

ASSETS: Property and property rights of a school system which have monetary value. Note: Conventionally, debit balances subject to final disposition, such as deferred charges and prepaid expenses, are classified as assets on the balance sheet.

AUDIT: The examination of documents, records, reports, systems of internal control, accounting and financial procedures, and other evidence for one or more of the following purposes: (1) to ascertain whether the statements prepared from accounts present fairly the financial position, the results of operations, the changes in fund equity, and the changes in financial position of each of the funds and account groups of the school system in accordance with generally accepted accounting principles applicable to school systems and on a basis consistent with that of the preceding year; (2) to determine the propriety, legality and mathematical accuracy of a school system's financial transactions; (3) to ascertain whether transactions have been properly recorded; and (4) to ascertain the stewardship of public officials who handle and are responsible for the financial resources of a school system.

AUDIT PROGRAM: A detailed outline of work to be done and the procedure to be followed during an audit, whether it is an internal audit conducted by members of the school district's internal auditing staff, by outside, independent accountants, or by auditors at the local, state, or federal level.

AUDIT REPORT: The report prepared by an auditor covering the audit or examination. As a rule, the report should include: (1) a statement of the scope of the examination; (2) explanatory comments (if any) concerning exceptions by the auditor as to application of generally accepted auditing standards; (3) opinion; (4) explanatory comments (if any) concerning verification procedures; (5) financial statements including footnotes which are an integral part of the financial statements, and schedules; and (6) sometimes statistical tables, supplementary comments and recommendations. The auditor's signature follows items (3) or (4).

AUDITED VOUCHER: A voucher which has been examined, verified, and approved for payment.

AUDITOR'S OPINION: A letter signed by an auditor which states that the financial statements have been examined in accordance with generally accepted auditing standards (with exceptions, if any) and which expresses an opinion on the fairness of presentation of the financial position, the results of operations, the changes in fund equity, and the changes in financial position of all of the funds and account groups of the school system that have been examined.

AUTHORITY: A governmental unit or public agency created to perform a single function or a restricted group of related activities. Usually such units are financed from service charges, fees and tolls but in some instances they have taxing powers. An authority may be completely independent of other governmental units or in some cases it may be partially dependent upon other governments for its creation, its financing or the exercise of certain powers.

BALANCE SHEET: A statement which discloses the assets, liabilities, and equities of a fund of a school system at a specified date. It is properly classified to exhibit the financial position of the fund or account group at that date. Note: If a single balance sheet is prepared for several funds, it must be in columnar or sectional form to exhibit the accounts of each fund and account group individually.

BASIS OF ACCOUNTING: The time at which revenues, expenses, expenditures, transfers and related assets and liabilities are recognized in the accounts and are reported in the financial statements of the fund or account group.

BEAR MARKET: A period of generally pessimistic attitudes and declining market prices.

BETTERMENT: An addition made to, or change made in, a fixed asset which is expected to prolong its life or increase its efficiency over and above that arising from maintenance and the cost of which is therefore added to the book value of the asset. Note: The term is sometimes applied to sidewalks, sewers and streets but these should preferably be designated as IMPROVEMENTS.

BILL: (1) A term to denote a law or statute passed by certain legislative bodies. A bill has greater legal formality and standing than a resolution. (2) A statement of an amount owed or claimed for goods or services bought or sold on open account.

BOND: A written promise to pay a specified sum of money called the face value or principal amount at a specified date or dates in the future, called maturity date(s), together with periodic interest at a specified rate. Note: The differences between a promissory note and a bond is that the latter runs for a longer period of time and requires greater legal formality.

BOND ANTICIPATION NOTES: Short term interest bearing notes issued by a school system in anticipation of bonds to be issued at a later date. These promissory notes are retired from the proceeds of the bond issue to which they are related.

BOND DISCOUNT: The excess of the face value of a bond over the price for which it was acquired or sold. Note: The price does not include accrued interest at the date of acquisition or sale.

BOND EQUIVALENT YIELD: The annual rate of interest paid or earned on bonds purchased at a premium or discount. Interest paid or earned as stated on the face of the instrument plus or minus the amount of the premium or discount amortized for that period of time.

BOND ORDINANCE OR RESOLUTION: An ordinance or resolution authorizing a bond issue.

BOND PREMIUM: The excess of the price at which the bond is sold or acquired over its face value.

BONDED DEBT: That portion of the indebtedness of a school system represented by outstanding bonds.

BOND INTEREST EXPENSE: The cost of using borrowed money; a stated percentage of the principal amount of the debt charged for a specified period of time.

BONDS AUTHORIZED AND UNISSUED: Bonds which have been legally authorized but not issued and which can be sold without further authorization.

BONDS ISSUED: Bonds that are sold.

BONDS PAYABLE: The face value of bonds that are outstanding, issued and unpaid.

BOOK VALUE: (1) The amount shown on the books of the account. (2) The original cost of an asset less the accumulated depreciation to a date specified (if applicable).

BOOKS OF ORIGINAL ENTRY: The records in which the various transactions are formally recorded for the first time, such as the cash receipts journal, check register, voucher register, or general journal.

BUDGET: A plan of financial operation embodying an estimate or proposed expenditures for a given period and the proposed means of financing them. Used without any modifier, the term usually indicates a financial plan for a single fiscal year.

BUDGETARY ACCOUNTS: Frequently referred to as managerial accounts, budgetary accounts are those accounts which make it possible for a budgetary type fund (governmental type fund) to show how estimated revenue and revenue realized to date compare and how expenditures and encumbrances compare with appropriations during the fiscal period. Budgetary accounts are: estimated revenues, appropriations, encumbrances, reserve for encumbrances, and budgeted fund balance accounts as distinguished from proprietary accounts. See also PROPRIETARY ACCOUNTS.

BUDGETARY CONTROL: The financial control or financial management of a school system or enterprise in accordance with an approved budget for the purpose of keeping expenditures within the limitations of available appropriations and available revenues.

BUDGETED FUND BALANCE: A temporary account in which the excess of estimated revenue over appropriations is recorded instead of commingling it with the fund equity or fund balance, unappropriated, account when the budget is recorded in the accounts. Changes in the budget can be recorded during the accounting period in this account as long as it has a credit balance. Once a debit balance appears in this account, fund equity, unappropriated, is being absorbed. It is a management information account used during the fiscal period.

BUILDINGS: A fixed asset account which reflects the acquisition value of permanent structures used to house persons and property owned by the school system. If buildings are purchased or constructed, this account includes the purchase or contract price of all permanent buildings and fixtures attached to and forming a permanent part of such buildings. If buildings are acquired by gift, the account reflects their appraised value at the date received.

CALLABLE BONDS: A type of bond which permits the issuer to pay the obligation before the stated maturity date by giving notice of redemption in a manner specified in the bond contract.

CAPITAL ASSETS: See FIXED ASSETS.

CAPITAL BUDGET: A plan of proposed capital outlays and the means of financing them for the current fiscal period. It is usually a part of the current budget. If a CAPITAL PROGRAM is in operation, it will be the first year thereof. A CAPITAL PROGRAM is sometimes referred to as a CAPITAL BUDGET. See also CAPITAL PROGRAM.

CAPITAL EXPENDITURES: See CAPITAL OUT-LAYS.

CAPITAL IMPROVEMENT PROGRAM: See CAPITAL PROGRAM.

CAPITAL OUTLAYS: Expenditures which result in the acquisition of or addition to fixed assets such as land, buildings and equipment.

CAPITAL PROGRAM: A plan for capital expenditures to be incurred each year over a fixed period of years to meet capital needs arising from the long term work program or otherwise. It sets forth each project or other contemplated expenditure in which the school system is to have a part and specifies the full resources estimated to be available to finance the projected expenditures.

CAPITAL PROJECTS FUND: A fund created to account for all resources used for the acquisition of designated fixed assets by a school system except those financed by internal services funds, enterprise funds and certain trust funds. See also BOND FUND.

CAPITAL RESOURCES: Resources of a fixed or permanent nature, such as land and buildings, which cannot ordinarily be used to meet current expenditures.

CASH: Currency, coin, checks, postal and express money orders and bankers' drafts on hand or on deposit with an official or agent designated as custodian of cash and bank deposits.

CASH DISCOUNT: An allowance received or given if payment is completed within a stated period of time. Note: This term is not to be confused with TRADE DISCOUNT.

CENTRAL COMPUTER INPUT/OUTPUT: Communications between the central computer and the peripheral units of some computer systems that may be done over input/output channels.

CHARACTER: A basis for classifying expenditures according to the periods they are presumed to benefit. See also CHARACTER CLASSIFICATION.

CHARACTER CLASSIFICATION: A grouping of expenditures on the basis of the time periods they are presumed to benefit. The three groupings are: (1) expenses, presumed to benefit the current fiscal period; (2) provisions for retirement of debt, presumed to benefit prior fiscal periods primarily but also present and future periods; and (3) capital outlays, presumed to benefit the current and future capital periods.

CHECK: A bill of exchange drawn on a bank and payable on demand; a written order on a bank to pay on demand a specified sum of money to a named person, to his order, or to bearer, out of money on deposit to the credit of the maker. Note: A check differs from a warrant in that the latter is not necessarily payable on demand and may not be negotiable. It differs from a voucher in that the latter is not an order to pay.

CLAIM: A bill representing a demand for payment properly made out on required form, and filed with the board, itemizing items or services for which the claim is made and showing where, when and by whom performed.

CLASSIFICATION: A systematic arrangement of items into classes or related groups for analytical or control purposes.

COBOL: An acronym meaning COmmon Business Oriented Language. A common computer procedural language designed for commercial data processing which was developed and defined by a national committee of computer manufacturers and users.

CODING: A system of numbering or otherwise designating accounts, entries, invoices, vouchers, etc., in such a manner that the symbol used reveals quickly certain required information.

COMBINATION BOND: A bond issued by a school system which is payable from the revenues of the school system but which is also backed by the full faith and credit of a related governmental unit.

COMBINED BALANCE SHEET: A single balance sheet which displays the individual balance sheets of each class of funds and account groups of a school system in separate, adjacent columns. Note: There are no inter-fund eliminations or consolidations in a combined balance sheet for a school system.

COMMITMENTS: See ENCUMBRANCES.

COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR): The CAFR of a school district should contain an introductory section, financial section [including (a) an auditor's report, (b) general purpose financial statements, (c) combining and individual fund and account group statements and schedules] and statistical tables.

CONSTRUCTION CONTRACTS PAYABLE: Amounts due by a school system on contracts for construction of buildings, structures and other improvements.

CONSTRUCTION WORK IN PROCESS: The cost of construction work undertaken but not yet completed.

CONTINGENT LIABILITIES: Items which may become liabilities as a result of conditions undetermined at a given date, such as guarantees pending lawsuits, judgments under appeal, unsettled disputed claims, unfilled purchase orders and uncompleted contracts. Note: All contingent liabilities should be shown on the face of the balance sheet or in a footnote.

CONTINUING APPROPRIATION: An appropriation which, once established, is automatically renewed without further legislative action, period after period, until altered or revoked.

CONTRACTS PAYABLE: Amounts due on contracts for assets, goods and services received by a school system.

CONTRACTS PAYABLE—RETAINED PERCENTAGE: Liabilities on account of construction contracts which have been completed but on which part of the liability has not been paid pending final inspection or the lapse of a specified period of time, or both. The unpaid amount is usually stated as a percentage of the contract price.

CONTRIBUTION FROM THE GENERAL FUND: An equity amount in an **ENTERPRISE FUND** or **INTERNAL SERVICE FUND** which shows the amount of permanent fund capital contributed to the enterprise or internal service fund by the school system from general school revenues and resources.

CONTRIBUTION FROM ———————— FUND: This account is identical to **CONTRIBUTION FROM THE GENERAL FUND** except that the specific fund of origin is specified.

CONTROL ACCOUNT: An account in the general ledger in which are recorded the aggregate of debit and credit postings to a number of identical or related accounts called subsidiary ledger accounts. For example, the **TAXES RECEIVABLE** account is a control account supported by the aggregate of individual balances in individual property taxpayers' accounts. See also **GENERAL LEDGER** and **SUBSIDIARY ACCOUNT**.

COST: The amount of money exchanged for property or services. Note: Costs may be incurred even before money is paid; that is, as soon as liability is incurred. Again, the cost of some property or service may in turn become a part of the cost of another property or service. For example, the cost of part or all of the materials purchased at a certain time will be reflected in the cost of articles made from such materials or in the cost of those services in the rendering of which the materials were used.

COST ACCOUNTING: That method of accounting which provides for assembling and recording of all the elements of cost incurred to accomplish a purpose, to carry out an activity or operation, or to complete a unit of work or a specific job.

COST LEDGER: A subsidiary record where each project, job, production center, process, operation, product or service is given in a separate account to which all items entering into its cost are posted in required detail. Such accounts should be so arranged and kept that the results shown in them may be reconciled with and verified by a control account or accounts in the general ledger.

COST OF REPRODUCTION-NEW: A term used in appraisals; the cost of reproduction new of the property is determined in accordance with local market prices current at the date of the appraisal for labor, material, and equipment; cost of freight, cartage, and installation; contractor's overhead and profit; and architect and/or engineer fees; and represents cost to replace new the property in like kind. Does not include any allowance for overtime, premiums, or bonuses.

COST RECORDS: All ledgers, supporting records, schedules, reports, invoices, vouchers and other documents reflecting the cost of projects, jobs, production centers, processes, operations, products or services, or the cost of any component.

COUPON RATE: The interest rate specified on interest coupons attached to a bond. The term is synonymous with the nominal interest rate.

CPU (Central Processing Unit): The unit of a computer system which contains the circuits which control, perform, and execute instructions.

CURRENT: A term applied to budgeting and accounting which designates the operation of the present fiscal period as opposed to past or future periods.

CURRENT ASSETS: Those assets which are available or can be made readily available to meet the cost of operations or to pay current liabilities. Some examples are cash, temporary investments and taxes receivable which will be collected within about a year from the balance sheet date.

CURRENT BUDGET: The annual budget prepared for and effective during the present year; or, in the case of some state governments, the budget for the present biennium.

CURRENT EXPENSES: See EXPENSES.

CURRENT FUND: See GENERAL FUND.

CURRENT FUNDS: Funds, the resources of which are expended for operating purposes during the current fiscal period. In its usual application in plural form, it refers to general, special revenue, debt service, internal service funds and enterprise funds of a school system. In the singular form, the current fund is synonymous with the GENERAL FUND.

CURRENT LIABILITIES: Debts or obligations of the school system which are payable within a relatively short period of time, usually restricted to those coming due within a year or within an operating period.

CURRENT REVENUE: Revenues of a school system which are available to meet expenditures of the current fiscal period. See REVENUE.

CURRENT TAXES: (1) Taxes levied and becoming due during the current fiscal period, from the time the amount of the tax levy is first established to the date on which a penalty for nonpayment is attached. (2) Taxes levied in the preceding fiscal period but becoming due in the current fiscal period, from the time they become due to the date on which a penalty for nonpayment is attached.

CURRENT YEAR'S TAX LEVY: Taxes levied for the current fiscal period.

CUSTOMER DEPOSITS: The liability of an enterprise fund for deposits made by customers as a prerequisite to receiving goods and/or services provided by the enterprise.

DEBT: An obligation resulting from borrowing of money or from the purchase of goods or services. Debts of school systems include bonds, time warrants, tax anticipation notes payable, accounts payable, vouchers payable, interest payable, and salaries payable.

DEBT LIMIT: The maximum amount of gross or net debt which is legally permitted.

DEBT SERVICE FUND: A fund established to finance and account for the accumulation of financial resources over a long period of time which are to be used for the payment of interest and principal on all general obligation debt, serial and term, other than that payable exclusively from revenue debt issued for and serviced by school system. Formerly called SINKING FUND.

DEBT SERVICE FUND REQUIREMENTS: The amounts of revenue which must be provided for a DEBT SERVICE FUND so that all principal and interest payments can be made in full on schedule.

DEFERRED ASSETS: See DEFERRED CHARGES and PREPAID EXPENSES.

DEFERRED CHARGES: Expenditures which are not chargeable to the current fiscal period in which made but are carried on the asset side of the balance sheet pending amortization or other disposition. An example is DISCOUNT ON BONDS ISSUED.

DEFERRED CREDITS: Credit balances or items which will be spread over the following accounting periods either as additions to revenues or as reductions to expenses. Examples are taxes collected in advance or premiums paid on bonds issued.

DEFERRED INCOME: See DEFERRED CREDITS.

DEFICIT: (1) The excess of liabilities of a fund over its assets [frequently referred to as a fund deficit], (2) The excess of expenditures over revenues during an accounting period [frequently referred to as an operating deficit]; or, in the case of **ENTERPRISE** and **INTERNAL SERVICE FUNDS**, the excess of expense over income during an accounting period.

DELINQUENT TAXES: Taxes remaining unpaid on and after the date on which a penalty for non-payment is attached. Even though the penalty may be subsequently waived and a portion of the taxes may be abated or cancelled, the unpaid balances continue to be delinquent taxes until abated, cancelled, paid or converted into tax liens.

DEPOSITS: Money or securities placed with a bank or other institution or person, either as a deposit subject to withdrawal by check or as a special deposit made for a particular purpose.

DEPRECIATION: (1) Expiration in the service life of fixed assets, other than wasting assets, attributable to wear and tear, deterioration, action of the physical elements, inadequacy and obsolescence. (2) The portion of the cost of a fixed asset other than a wasting asset which is charged as an expense during a particular fiscal period.

DIRECT DEBT: The debt which a school system has incurred in its own name or assumed through the annexation of territory or through consolidation with another school system.

DISBURSEMENTS: Payments in CASH.

DOUBLE ENTRY: A system of bookkeeping which requires for every entry made to the debit side of an account or accounts an entry must be made for a corresponding amount or amounts to the credit side of another account or accounts.

DUE FROM ———————— FUND: An asset account used to indicate amounts collectible by a particular fund from another fund in the same school system for goods sold or services rendered. This account includes only short-term obligations on open account and not long-term loans. See ADVANCE TO ———————— FUND.

DUE FROM ———————— GOVERNMENT: Amounts claimed by the reporting school system from a governmental unit. These amounts may represent grants-in-aid, shared taxes, taxes collected by another unit, loans, and charges for services rendered by the reporting unit for another governmental unit.

DUE TO FISCAL AGENT: Amounts due to fiscal agents, such as commerical banks, for paying a school system's maturing interest and principal payments on indebtedness.

DUE TO ———————— FUND: A liability account used to indicate amounts owed by a particular fund to another fund in the same school system for money borrowed temporarily, goods sold or services rendered. These amounts include only short-term obligations on open account and not long-term loans.

DUE TO ———————————— GOVERNMENT: Amounts owed by a fund of the reporting school system to a named governmental unit.

EARNINGS: See INCOME and REVENUE.

EFFECTIVE INTEREST RATE: The rate of earning on a bond investment based on the actual price paid for the bond, the coupon rate, the maturity date, and the length of time between interest dates, in contrast with the nominal interest rate.

ENCUMBRANCES: Obligations or commitments in the form of purchase orders, contracts issued or salary commitments which are chargeable to an appropriation and for which a part of the appropriation is reserved. They cease to be encumbrances when paid or when the title to goods or services is received and the actual liability is created. Frequently referred to as commitments.

ENDOWMENT FUND: A trust fund whose principal must be maintained inviolate but whose income may be expended. An endowment fund is accounted for as a NON-EXPENDABLE TRUST FUND, the income from which is accounted for as an EXPENDABLE TRUST FUND.

ENTERPRISE DEBT: Debt which is to be retired primarily from the earnings of publicly owned and operated enterprises. See also REVENUE BONDS.

ENTERPRISE FUND: A proprietary type fund established to finance and account for the acquisition, operation, and maintenance of school system facilities and services which may be predominantly self-supporting by users charges. Examples of enterprise funds are those for food services, bookstores, athletic programs, etc.

ENTRY: (1) The record of a financial transaction in its appropriate books of account. (2) The act of recording a financial transaction in the books of account.

EQUIPMENT: Physical property of a school system having a long period of usefulness, other than buildings and land.

EQUITY IN GENERAL FIXED ASSETS: A classification of accounts in the general fixed assets group of accounts which indicate the sources from which general fixed assets were acquired. Carrying a credit balance, it is more descriptive of the nature of the accounts than "investment" in general fixed assets.

ESTIMATED REVENUES: For revenue accounts kept on the accrual basis, this term designates the amount of revenue estimated to accrue during a given period regardless of whether or not it is all to be collected during the period.

ESTIMATED UNCOLLECTED ACCOUNTS RECEIVABLE: A contra-asset account. It is estimated to be the amount of accounts receivable that is not expected to be collected. It is subtracted from ACCOUNTS RECEIVABLE on the balance sheet to arrive at the book value of ACCOUNTS RECEIVABLE.

ESTIMATED UNCOLLECTIBLE TAXES (CURRENT OR DELINQUENT): A contraasset account, it is the amount that is not expected to be collected. It is subtracted from TAXES RECEIVABLE (current or delinquent) to arrive at the book value of these accounts. Note: Generally the longer a tax becomes delinquent, the less likely are its chances for being collected.

EXCLUSIONS: An appraisal term; those items usually excluded by the fire policy: excavation and filling, portions of foundations which are below the undersurface of the lowest basement floor, or, where there is no basement, which are below the surface of the ground; underground sewerage, piping and wiring.

EXHIBIT: (1) A balance sheet or other principal financial statement. (2) Any formal financial statement that accompanies or is a part of a financial or audit report.

EXPENDABLE TRUST FUND: A fiduciary fund, a trust fund whose resources, both principal and earnings, may be expended.

EXPENDITURES: The cost of goods delivered or services rendered, whether paid or unpaid, including expenses, provision for debt retirement not reported as a liability of the fund from which retired, and capital outlays. Note: Encumbrances are not expenditures. Expenditure accounts are used only in formal budgetary or governmental type funds.

EXPENSES: Charges incurred, whether paid or unpaid, for operation, maintenance, interest, and other charges which are presumed to benefit the current fiscal period. In budgetary funds, expenditure accounts are used to record expenses but, in proprietary type funds and certain trust funds, only expense accounts are used.

FACE VALUE: As applied to securities, this term designates the amount stated on the security document.

FAIR MARKET VALUE: An appraisal term; the price paid to a willing seller not compelled to sell, by a willing buyer not compelled to buy, or the price expected if a reasonable time is allowed to find a buyer, if both seller and buyer are fully informed.

FIDELITY BOND: A written promise to idemnify against losses from theft, defalcation, or misappropriation of money or property by school officers and employees. See also SURETY BOND.

FISCAL PERIOD: Any period of time at the end of which a school system determines the financial position, results of operations, changes in fund equities, and changes in financial position of each fund and account group. It may be monthly, quarterly, semiannually or annually.

FIXED ASSETS: Assets of a long-term character which are intended to continue to be held or used, such as land, buildings, machinery, furniture, and equipment. Note: The term does not indicate the immobility of an asset, which is a distinctive characteristic of a FIXTURE.

FIXTURES: Attachments to buildings which are not intended to be removed and which cannot be removed without damage to the latter. Note: Those fixtures with a useful life presumed to be as long as that of the building itself are considered a part of such a building; all others are classed as equipment.

FUNCTION: A classification of a group of related activities aimed at accomplishing a major service, purpose or program for which a school system is responsible. For example, instruction is a function. See also ACTIVITY, CHARACTER.

FUNCTIONAL CLASSIFICATION: A grouping of expenditures on the basis of the principal purposes for which they are made. Examples are supporting services and community services. See also ACTIVITY, CHARACTER.

FUND: A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitation. See GENERAL FIXED ASSETS GROUP OF ACCOUNTS and GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS.

FUND ACCOUNTS: All accounts necessary to set forth the financial position, the financial operations, the changes in residual equities or balances, and the changes in financial position of a fund.

FUND BALANCE: The excess of the assets of a fund over its liabilities except in the case of funds subject to budgetary accounting where, prior to the end of a fiscal period, it represents the excess of the fund's assets and estimated revenues for the period over its liabilities and appropriations.

FUND BALANCE SHEET: A balance sheet for a single fund. See FUND and BALANCE SHEET.

FUND GROUP: A group of funds which are similar in purpose and character. For example, several special revenue funds constitute a fund group.

FUNDED DEBT: Same as BONDED DEBT, which is the preferred term.

FUNDED DEFICIT: A fund deficit eliminated through the sale of bonds issued for that purpose.

FUND EQUITY: The excess of a fund's total assets over total liabilities; synonymous with the term fund balance.

GENERAL FIXED ASSETS: Those fixed assets of a school system which are not accounted for in an enterprise, internal services fund, or trust fund.

GENERAL FIXED ASSETS GROUP OF ACCOUNTS: A self-balancing group of accounts set up to account for the general fixed assets of a school system. See GENERAL FIXED ASSETS and SELF-BALANCING GROUP OF ACCOUNTS.

GENERAL FUND: A fund used to account for all transactions of a school system which are not accounted for in another fund. Note: The general fund is used to account for the ordinary operations or the basic educational programs of a school system which are financed from taxes and other general revenues. Identified as one of the formal budgetary funds or as a governmental type fund.

GENERAL JOURNAL: A book of original entry for all entries of financial transactions that are not recorded in special journals such as a cash receipts journal, a voucher register, a cash payments journal or a check register.

GENERAL LEDGER: A book, file, or other device which contains the accounts needed to reflect, in summary and in detail, the financial position, the results of financial operations, the changes in equities of a fund or account group used by a school system. Note: In double entry bookkeeping, the debits and credits in the general ledger are equal, and therefore the debit balances equal the credit balances. See also CONTROL ACCOUNT, SUBSIDIARY ACCOUNT and SUBSIDIARY LEDGER.

GENERAL LONG-TERM DEBT: Long-term debt legally payable from general revenues and backed by the full faith and credit of a school system. See LONG-TERM DEBT.

GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS: The account group in which all unmatured general long-term liabilities of a school district are recorded but does not include long-term liabilities of proprietary funds and trust funds.

GENERAL OBLIGATION BONDS: Bonds for whose payment the full faith and credit of the issuing body are pledged. More commonly, but not necessarily, general obligation bonds are considered to be those payable from taxes and other general revenues.

GENERAL REVENUE: The revenues of a school system other than those derived from and retained in an enterprise. Note: If a portion of the net income in an enterprise fund is contributed to another non-enterprise fund, such as the general fund, the amounts transferred constitute general revenue of the school system.

GOVERNMENTAL ACCOUNTING: The composite activity of analyzing, recording, summarizing, reporting, and interpreting the financial transactions of governmental units and agencies.

IMPREST SYSTEM: A system for handling minor disbursements whereby a fixed amount of money, designated as petty cash, is set aside for this purpose. See also PETTY CASH.

IMPROVEMENTS: Buildings, other structures, and other attachments or annexations to land which are intended to remain so attached or annexed, such as sidewalks, trees, drives, tunnels, drains, and sewers. Note: Sidewalks, curbing, sewers, and streets are sometimes referred to as BETTERMENTS, but the term IMPROVEMENTS is preferred.

INCOME: A term used in accounting for a school enterprise fund or internal service fund to represent the excess of revenues earned over the expenses incurred in carrying on the fund's operations. It should not be used without an appropriate modifier, such as OPERATING, GROSS, or NET. See also OPERATING INCOME. Note: The term INCOME should not be used in lieu of REVENUE in non-enterprise funds.

INTEREST AND PENALTIES RECEIVABLE ON TAXES: The uncollected portion of interest and penalties receivable on taxes.

INTEREST RECEIVABLE ON INVESTMENTS: The amount of interest receivable on investments.

INTER-FUND ACCOUNTS: Accounts in which transactions between funds are recorded.

INTER-FUND LOANS: Authorized loans made by one fund to another.

INTERGOVERNMENTAL REVENUE: Revenue received from other governments in the form of grants, shared revenues, or payments in lieu of taxes.

INTERIM BORROWING: (1) Short-term loans to be repaid from general revenues during the course of a fiscal year. (2) Shortterm loans in anticipation of tax collections or bond issuance. See BOND ANTICIPATION NOTES.

INTERIM STATEMENT: A financial statement prepared before the end of the current fiscal year and covering only financial transactions during the current year to date. See also STATEMENT.

INTERNAL AUDIT: An appraisal activity within a school system which: (1) determines the adequacy of the system of internal control; (2) verifies and safeguards assets; (3) determines the reliability of the accounting and reporting system; (4) ascertains compliance with established policies and procedures; and (5) appraises performance of activities and work programs.

INTERNAL CONTROL: A plan of organization under which employees' duties are so arranged and records and procedures are so designed as to make it possible to provide effective safeguards and accounting control over assets, liabilities, revenues, income, expenses and expenditures. Under such a system, the work of employees is subdivided so that no single employee performs a complete cycle of operations. Procedures to be followed which require proper authorization by designated officials for all actions to be taken.

INTERNAL SERVICES FUND: A proprietary type of fund established to finance and account for services and commodities furnished by a designated department or agency of the school district to other departments and agencies within a single school district. Amounts expended by the fund are restored to it either from operating earnings or by transfers from other funds, so that the original fund capital is kept intact. Formerly called a working capital fund.

INVENTORY: A detailed list showing quantities, descriptions, and values of property and frequently also shows units of measure and unit prices.

INVESTMENTS: Securities and real estate held for the production of income in the form of interest, dividends, rentals, or lease income. The term does not include fixed assets used in operation of the school system.

INVESTMENTS IN GENERAL FIXED ASSETS: A widely used classification of accounts used to show the sources from which general fixed assets were acquired in the general fixed assets group of accounts. It has become an ambiguous title because the word "investment" usually implies that it is an asset account which normally carries a debit balance. As this type of account carries a credit balance, the term "equity" in general fixed assets is more descriptive of its nature.

JOURNAL: Any book of original entry of a financial transaction. See also **REGISTER**.

JOURNAL VOUCHER: A business paper provided for the recording of certain transactions or information in place of or supplementary to the journals or registers. The journal voucher usually contains an entry or entries, explanations, references to documentary evidence supporting the entry or entries, and the signature or initials of one or more officials who are designated to authorize the transaction.

JUDGMENT: An amount to be paid or collected by a school system as the result of a court decision, including a condemnation award in payment for private property taken for public use.

LAND: A fixed asset account which reflects the cost or other valuation basis of land owned by a school system. If land is purchased, this account shows the purchase price and costs such as legal fees, filling and excavation costs, and the like which are incurred to put the land in condition for its intended use. If land is acquired by gift, the account reflects its appraised value at date received.

LEDGER: A group of accounts in which are recorded the financial transactions of a fund of a school system.

LEVY: To impose taxes, special assessments, or service charges for the support of school operations. The total amount of taxes, special assessments, or services charges imposed by a governmental unit.

LIABILITIES: Debts or other legal obligations arising out of transactions in the past which must be paid, renewed, or refunded at some future date. Note: The term does not include encumbrances.

LOAN FUND: An agency fund whose principal and/or interest is loaned to individuals in accordance with the legal requirements.

LONG-TERM BUDGET: A budget prepared for a period longer than a fiscal year, or in the case of some state governments, a budget prepared for a period longer than a biennium. If the long-term budget is restricted to capital expenditures, it is called a CAPITAL PROGRAM or a CAPITAL IMPROVEMENT PROGRAM.

LONG-TERM DEBT: Debt with a maturity of more than one year after the date of issuance.

MAGNETIC DISC (DISK): A circular plate which is flat and has a magnetic surface on which data can be stored by selective magnetization of portions of the flat surface.

MAGNETIC TAPE: A storage device externally located in the form of a ferrous oxide coating on a reel of metallic or plastic tape upon which bits may be recorded magnetically to retain data.

MAINTENANCE EXPENDITURE: Repairs to fixed assets that do not clearly increase the value and/or useful life of the asset.

MATURED BONDS PAYABLE: Bonds which have reached or passed their maturity date but which remain unpaid.

MATURED INTEREST PAYABLE: Interest on bonds which has reached the maturity date but which remains unpaid.

MORTGAGE BONDS: Bonds secured by a mortgage against specified properties of a school system, usually its enterprises. If primarily payable from enterprise revenues, they are also classed as revenue bonds. See also REVENUE BONDS.

MUNICIPAL BONDS: A bond issued by a state or local governmental unit.

NET REVENUE AVAILABLE FOR DEBT SERVICE: Gross operating revenues of an enterprise fund less operating and maintenance expenses but exclusive of bond interest. "Net revenue" as thus defined is used to compute "coverage" on revenue bond issues.

NOMINAL INTEREST RATE: The contractual interest rate shown on the face and in the body of a bond and representing the amount of interest to be paid, in contrast to the effective interest rate. See also COUPON RATE.

NON-EXPENDABLE TRUST FUND: A trust fund, the principal and sometimes also the earnings of which may not be expended. See also ENDOWMENT FUND.

NOTES PAYABLE: In general, an unconditional written promise signed by the maker to pay a certain sum in money on demand or at a fixed or determinable time either to the bearer or to the order of a person designated therein.

NOTES RECEIVABLE: A note held by the school district which contains an unconditional written promise, signed by the maker, to pay a certain sum in money on demand or at a fixed or determinable future time either to the bearer or to the order of a person designated therein. The note may be held by the reporting school system as designated payee or by endorsement.

ON-LINE: A system and peripheral equipment or device in a system where the operation of such computer equipment is under the control of the central processing unit.

OPERATING BUDGET: A budget which applies to all revenue and expenditures other than capital outlay expenditures. See BUDGET.

OPERATING EXPENSES: (1) As used in the accounts of a school's enterprise funds and internal services funds, the term means those costs which are necessary to the maintenance of the enterprise, the rendering of services, the sale of products, the production and disposition of commodities produced, and the collection of enterprise revenues. (2) The term is also sometimes used to describe expenses for general school purposes.

OPERATING INCOME: Income of a school enterprise fund which is derived from the sale of its goods and/or services. For example, income from the sale of lunches or from the sale of books is operating income. See also OPERATING REVENUES.

OPERATING REVENUE: Revenue derived from the operation of school enterprise funds and internal services funds of a business character.

OPERATING STATEMENT: A statement summarizing the financial operations, i.e., the revenue and expenses or expenditures of a school fund for an accounting period as contrasted with a balance sheet which shows the financial position of the fund at a given moment.

OVERHEAD EXPENSES: Those elements of cost necessary to the production of an article or the performance of a service which are of such a nature that the amount applicable to the product or service cannot be determined accurately or readily. Usually they relate to those expenses which do not become an integral part of the finished product or service, such as rent, heat, light, supplies, management, supervision, etc.

PASSWORD: A unique set of digits or characters assigned to a user as part of the user's identification number needed to communicate with the computer.

PERFORMANCE BUDGET: A budget wherein expenditures are based primarily upon measurable performance of activities and work programs. A performance budget may also incorporate other bases of expenditure classification, such as character and object, but these are given a subordinate status to activity performance.

PERPETUAL INVENTORY: A system whereby the inventory of units of property at any date may be obtained directly from the records without resorting to an actual physical count. A record is provided for each item or group of items to be inventoried and is so divided as to provide a running record of goods ordered, received, and withdrawn, and the balance on hand, in units and in cost.

PETTY CASH: A sum of money set aside for the purpose of paying small obligations for which the issuance of a formal voucher and check would be too expensive and time-consuming. Sometimes called a petty cash fund, with the term "fund" here being used in the commerical sense of earmarked liquid assets. See also IMPREST SYSTEM.

POSTING: The act of transferring to an account in a ledger the data, either detailed or summarized, contained in a book of original entry.

PREPAID EXPENSES: Expenses entered in the accounts for benefits not yet received. Prepaid expenses differ from deferred charges in that they are spread over a shorter period of time than deferred charges and are regularly recurring costs of operations. Examples of prepaid expenses are prepaid rent expense, prepaid interest expense, and premiums on unexpired insurance. An example of a deferred charge is unamortized discounts on bonds payable.

PREPAID TAX REVENUE: The deposit of money with a school district or governmental unit on condition that the amount deposited is to be applied against the tax liability of a designated taxpayer after the taxes have been levied and such liability has been established. See also TAXES COLLECTED IN ADVANCE.

PRINCIPAL OF BOND DEBT: The amount printed on the face of the instrument; the amount to be paid at the maturity date of the bond, exclusive of interest, premiums or discounts.

PRO-FORMA: For form's sake; an indication of form; an example. The term is used in conjunction with a noun to denote merely a sample form, document, statement, certificate, or presentation, the contents of which may be either wholly or partially hypothetical, actual facts, estimates, or proposals.

PROGRAM BUDGET: A budget where expenditures are based primarily on programs of work and secondarily on character and object. A program budget is a transitional type of budget between the traditional character and object budget, on the one hand, and the performance budget on the other. See also PERFORMANCE BUDGET, and TRADITIONAL BUDGET.

PROPRIETARY ACCOUNTS: Those accounts which show actual financial position and operations, such as actual assets, liabilities, fund balances, including reserves of fund equity, revenues, and expenditures, as distinguished from budgetary accounts.

PURCHASE ORDER: A document which authorizes the delivery of specified merchandise to the school district or the rendering of certain services for the school district and the making of a charge for them.

QUASI-MUNICIPAL CORPORATION: An agency established by the state primarily for the purpose of helping the state to carry out its functions; for example, a county or school district.

RATE BASE: The value of utility property used in computing an authorized rate of return as authorized by law or a regulatory commission.

REFUND: (Noun) An amount paid back or credit allowed because of an overcollection or return of an object sold. (Verb) To pay back or to allow credit for an amount as a result of an overcollection or because of the return of an object sold. (Verb) To provide for payment of a loan through cash or credit secured by a new loan.

REFUNDING BONDS: Bonds issued to retire bonds already outstanding. The refunding bonds may be sold for cash and outstanding bonds redeemed in cash, or the refunding bonds may be exchanged with holders of outstanding bonds.

REGISTER: A record for the consecutive entry of a certain class of events, documents, or transactions with a proper notation of all the required particulars. Note: The form of register for accounting purposes varies from one-column to multi-columnar sheets of special design whereon the entries are distributed, summarized, and aggregated for convenient posting to the accounts.

REIMBURSEMENT: Cash or other assets received as a repayment of the cost of work or services performed or of other expenditures made for or on behalf of another school unit or department or for an individual, firm, or corporation.

REPLACEMENT COST: The cost at a certain date of a property which can render similar service (but need not be of the same structural form) as the property to be replaced.

REQUISITION: A written demand or request, usually from one department to the purchasing officer or to another department, for specified articles or services.

REQUIRED EARNINGS: Synonymous or equivalent in meaning to estimated revenue from earnings such as interest income; a budgetary accounting term which indicates the amount of earnings estimated to be earned by the board of education at the time of adopting or revising the budget.

REQUIRED TAXATION: Synonymous or equivalent in meaning to estimated revenue from tax levies; a budgetary accounting term which indicates the amount of taxes levied by adoption or revising the budget.

RESERVE: An account which records a portion of the fund balance which must be segregated for some future use and which is, therefore, not available for further appropriation. A reserve for inventories equal in amount to the inventory of supplies on the balance sheet of a general fund is an example of such a reserve.

RESERVE FOR ADVANCE TO ______________ FUND: A reserve which represents the segregation of a portion of a fund balance to indicate that assets equal to the amount of the reserve are tied up in a longterm loan to another fund and are, therefore, not available for appropriation.

RESERVE FOR DEBT RETIREMENT: An account which indicates the amount of the unappropriated debt service fund equity that has been set aside to be used for retirement of outstanding debt at its maturity date. An appropriation of the debt service fund's equity.

RESERVE FOR EMPLOYEES' CONTRIBUTIONS: A reserve in a trust fund for a public employee retirement system which represents the amount of accumulated contributions made by employee members plus interest earnings credited in accordance with applicable legal provisions.

RESERVE FOR EMPLOYER CONTRIBUTIONS: A reserve in a trust fund for a public employee retirement system which represents the amount of accumulated contributions paid by the school system as employer plus interest earnings credited in accordance with applicable legal provisions.

RESERVE FOR ENCUMBRANCES: A reserve representing the segregation or the appropriation of a portion of a fund balance to provide for unliquidated encumbrances. See also **RESERVE**.

RESERVE FOR UNDISTRIBUTED INTEREST EARNINGS: An unallocated reserve in a trust fund for a public employee retirement system which represents interest earnings of the system that have not been distributed to other reserves such as **RESERVE FOR EMPLOYEES' CONTRIBUTIONS** and the **RESERVE FOR EMPLOYER CONTRIBUTIONS**.

RESTRICTED ASSETS: Money or other resources, the use of which is restricted by legal or contractual requirements. The most common examples of restricted assets in school accounting are those arising out of revenue bond indentures in enterprise funds. Also called **RESTRICTED FUNDS**, but this terminology is not preferred.

RETAINED EARNINGS: The accumulated earnings of an enterprise or internal services fund which have been retained in the fund and which are not reserved for any specific purpose.

RETIREMENT FUND: A trust fund out of which retirement annuities and/or other benefits are paid to authorized and designated public employees. A retirement fund is accounted for as a trust fund.

REVENUE: This term designates additions to assets which (1) do not increase any liability; (2) do not represent the recovery of an expenditure; (3) do not represent the cancellation of certain liabilities without a corresponding increase in other liabilities or a decrease in assets; and (4) do not represent contributions of fund capital in enterprise and internal services funds.

REVENUE BONDS: Bonds whose principal and interest are payable exclusively from earnings. In addition to a pledge of revenues, such bonds sometimes contain a mortgage on the enterprise's property and are then known as MORTGAGE REVENUE BONDS.

REVENUE BONDS PAYABLE: A liability account which represents the face value of revenue bonds issued and outstanding.

REVENUES COLLECTED IN ADVANCE: A liability account which represents revenues collected before they become due.

SECURITIES: Bonds, notes, mortgages, or other forms of negotiable or nonnegotiable instruments. See also INVESTMENTS.

SELF-BALANCING GROUP OF ACCOUNTS: An independent self-balancing group of accounts which is set up to account for either the fixed assets or the long-term debts of a governmental unit which are not accounted for in its individual funds or account groups. See GENERAL FIXED ASSETS GROUP OF ACCOUNTS and GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS.

SELF-SUPPORTING or SELF-LIQUIDATING DEBT: Debt obligations whose principal and interest are payable solely from the earnings of the enterprise fund or internal services fund for the construction or improvement of which they were originally issued. See also REVENUE BONDS.

SERIAL BONDS: Bonds the principal of which are repaid in periodic installments over the life of the issue.

SERIAL BONDS PAYABLE: A liability account which records the face value of general obligation serial bonds issued and outstanding.

SHARED REVENUE: Revenue which is levied by one governmental unit but shared, usually in proportion to the amount collected, with another unit of government or class of governments.

SHORT-TERM DEBT: Debt with a maturity of one year or less after the date of issuance. Short-term debt usually includes bond anticipation notes payable, tax anticipation notes payable, and warrants payable.

SINKING FUND BONDS: Bonds issued under an agreement which requires the school system to set aside periodically out of its revenues a sum which, with compound earnings, will be sufficient to redeem the bonds at their stated date of maturity. Sinking fund bonds are usually also term bonds. In lieu of establishing a sinking fund, today's terminology refers to the fund as a debt service fund.

SOUND VALUE—ACTUAL CASH VALUE: A appraisal term; sound value or actual cash value is based on the cost of reproduction new, less the accrued depreciation to date.

STANDARD COST: The predetermined cost of performing an operation or producing a product when labor, materials, and equipment are utilized efficiently under reasonable and normal conditions. Note: Normal conditions exist when there is an absence of special or extraordinary factors affecting the quality or quantity of the work performed, or the time or method of performing it.

STATEMENTS: (1) Used in a general sense, all of those formal written presentations which set forth financial information. (2) In technical accounting usage, those presentations of financial data which show the financial position and the results of financial operations of a fund, a group of accounts, or an entire school system for a particular accounting period. See also EXHIBIT.

STATUTE: A written law enacted by a duly organized and constituted legislative body.

STORES: Goods on hand in storerooms subject to requisition and use.

STRAIGHT SERIAL BONDS: Serial bonds in which the annual installments of bond principal are approximately equal.

SUB-ACTIVITY: A specific line of work performed in carrying out a school activity. For example, cleaning buildings and replacing defective lamps would be sub-activities under the activity of operation and maintenance of plant.

SUBSIDIARY ACCOUNT: One of a group of related accounts which support in detail the debit or credit summaries recorded in a control account in the general ledger. An example is the individual property taxpayers' accounts for taxes receivable, the total of which agrees with the balance of the controlling account, taxes receivable, in the general ledger. See also CONTROL ACCOUNT and SUBSIDIARY LEDGER.

SUBSIDIARY LEDGER: A group of subsidiary accounts the sum of the balances of which is equal to the balance of the related control account in the general ledger.. See also CONTROL ACCOUNT and SUBSIDIARY ACCOUNT.

SUBVENTION: That which aids; especially a grant, as of money; subsidy; giving of help or relief in danger, distress or difficulty.

SURETY BOND: A written promise to pay damages or to indemnify against losses caused by the party or parties named in the document, through nonperformance or through defalcation. An example is a surety bond given by a contractor or by an official handling cash or securities.

TAX ANTICIPATION NOTES PAYABLE: Notes (sometimes called warrants) issued in anticipation of collection of taxes, usually retirable only from tax collections, and frequently only from the proceeds of the tax levy whose collection they anticipate.

TAX CERTIFICATE: A certificate issued by a governmental unit as evidence of the conditional transfer of title to tax-delinquent property from the original owner to the holder of the certificate. If the owner does not pay the amount of the tax arrearage and other charges required by the law during the specified period of redemption, the holder can foreclose to obtain title. Also called tax sale certificate and tax lien certificate in some jurisdictions. See also TAX DEED.

TAX DEED: A written instrument by which title to property sold for taxes is transferred unconditionally to the purchaser. A tax deed is issued upon foreclosure of the tax lien obtained by the purchaser at the tax sale. The tax lien cannot be foreclosed until the expiration of the period during which the owner may redeem the property through paying the delinquent taxes and other charges. See also TAX CERTIFICATE.

TAX RATE LIMIT: The maximum rate at which a school system may levy a tax. The limit may apply to taxes raised for a particular purpose, or to taxes imposed for all purposes, and may apply to a single school, or a class of schools, or to all schools operating in a particular area. Overall tax rate limits usually restrict levies for all purposes and of all governments, state and local, having jurisdiction in a given area.

TAX ROLL: The official list showing the amount of taxes levied against each taxpayer or each parcel of property. Frequently, the tax roll and the assessment roll are combined, but even in these cases the two can be distinguished.

TAXES: Compulsory charges levied by a governmental unit for the purpose of financing services performed for the common benefit. Note: The term does not include specific charges made against particular persons or property for current or permanent benefits such as special assessments. Neither does the term include charges for services rendered only to those paying such charges as, for example, water service charges.

TAXES COLLECTED IN ADVANCE: A liability for taxes collected before the tax levy has been made, before the taxes are payable,or before the amount of taxpayer liability has been established.

TAXES LEVIED FOR OTHER UNITS: Taxes levied by the reporting school unit as an agent for other school units resulting in the need for a taxes receivable account and liability accounts to indicate the amount due to each of the other school units. When collected, cash will be paid to these units.

TAXES RECEIVABLE—CURRENT: The uncollected portion of taxes which a school system has levied and which has become due but on which no penalty for non-payment is attached.

TAXES RECEIVABLE—DELINQUENT: Taxes remaining uncollected on and after the date on which a penalty for non-payment is attached. Even though the penalty may be subsequently waived and a portion of the taxes may be abated or cancelled, the unpaid balances continue to be delinquent taxes until paid, abated, cancelled by order of the board of education, or converted into tax liens.

TERM BONDS: Bonds the entire principal of which matures on one date. Also frequently called sinking fund bonds.

TERM BONDS PAYABLE: A liability account which records the face value of general obligation term bonds issued and outstanding.

TIME WARRANT: A negotiable obligation of a school system having a term shorter than bonds and frequently tendered to individuals and firms in exchange for contractual services, capital acquisitions, or equipment purchases.

TIME WARRANT PAYABLE: The amount of time warrants outstanding and unpaid.

TOTAL ACCRUED DEPRECIATION: An appraisal phrase; the total accrued depreciation recognizes observed condition with proper consideration of usage, age, maintenance, and care, and with such regard for functional and economic factors as are determined relevant.

TRADE DISCOUNT: An allowance, usually varying in percentage with the volume of transactions, made to those engaged in certain businesses and allowable without respect to the time when the account is paid. Note: These discounts are commonly considered as a reduction of the sales or purchase price and not as an earning. The term is not to be confused with "cash discount."

TRADITIONAL BUDGET: A term sometimes applied to the budget of a school system wherein expenditures are based entirely or primarily on objects of expenditure. See also PROGRAM BUDGET and PERFORMANCE BUDGET.

TRIAL BALANCE: A list of the balances of the accounts in a ledger kept by double entry, with the debit and credit balances shown in separate columns. If the totals of the debit and credit columns are equal or their net balance agrees with a control account, the ledger from which the figures are taken is said to be "in balance."

UNAMORTIZED DISCOUNT ON BONDS PAYABLE: That portion of the excess of the face value of bonds over the amount received from their sale which remains to be written off periodically over the life of the bonds.

UNAMORTIZED DISCOUNTS ON INVESTMENT: That portion of the excess of the face value of securities over the amount paid for them which has not been written off

UNAMORTIZED PREMIUMS ON BONDS PAYABLE: An account in an enterprise fund which represents that portion of the excess of bond proceeds over face value, and which remains to be amortized over the remaining outstanding life of such bonds.

UNAMORTIZED PREMIUMS ON INVESTMENTS: That portion of the excess of the amount paid for securities over their face value which has not yet been amortized.

UNAPPROPRIATED BUDGET BALANCE: Where the fund balance at the close of the preceding year is not included in the annual budget, this term designates that portion of the current fiscal year's estimated revenues which has not been appropriated. Also referred to as "budgeted fund balance."

UNENCUMBERED APPROPRIATION: That portion of an appropriation not yet expended or encumbered.

UNEXPENDED APPROPRIATION: That portion of an appropriation which has not been expended.

UNLIQUIDATED ENCUMBRANCES: Encumbrances outstanding. See also **ENCUMBRANCES**.

VALUE: (1) the act of describing anything in terms of money; or (2) the measure of a thing in terms of money. This terms should not be used without further qualification. See also **BOOK VALUE** and **FACE VALUE**.

VOUCHER: A written document which evidences the propriety of transactions and usually the accounts in which they are to be recorded.

VOUCHER PAYABLE: Liabilities for goods and services received as evidenced by vouchers which have been pre-audited and approved for payment but have not been paid.

VOUCHER SYSTEM: A system which calls for the preparation of vouchers for transactions involving payments by check and for the recording of such vouchers in a special book of original entry known as a voucher register.

WARRANT: An order drawn by the school system or an officer of a school system upon its treasurer directing the latter to pay a specified amount to the payee named or to the bearer. It may be payable upon demand, in which case it usually circulates the same as a bank check; or it may be payable only out of certain revenues when and if received, in which case it does not circulate as freely.

WARRANTS PAYABLE: The amount of warrants issued, outstanding and unpaid.

WASTING ASSETS: Mines, timberlands, quarries, oilfields, and similar assets which diminish in value by the removal of their contents.

WORK IN PROCESS: The cost of partially completed products manufactured or processed, such as a partially completed printing job. Sometimes referred to as "work in progress." See also **CONSTRUCTION WORK IN PROGRESS**.

WORK ORDER: A written order authorizing and directing the performance of a certain task and issued to the person who is to direct the work. Among the items of information shown on the order are the nature and location of the job, specifications of the work to be performed, and a job number which is referred to in reporting the amount of labor, materials, and equipment used.

YIELD: See **EFFECTIVE INTEREST RATE**.

APPENDIX

POSITION STATEMENTS ON PUBLIC SCHOOL FUND ACCOUNTING BY THE ASSOCIATION OF SCHOOL BUSINESS OFFICIALS OF THE U.S. AND CANADA:

At its annual meeting the Association of School Business Officials of the U. S. and Canada adopted resolution number 12 on October 27, 1977, in San Antonio, Texas, which is as follows:

"12. FINANCIAL ACCOUNTING STANDARDS AND PROCEDURES FOR SCHOOL SYSTEMS

"The Association of School Business Officials recognizes that the accounting standards and procedures employed by the various school districts in the provinces and states will be affected by local conditions, legal structures, and the extent of fiscal management required of the school districts. However, it feels that there should be an approved system of financial standards and procedures to use as a guide for processing and managing the financial affairs of schools. As the professional association dedicated to improving business management, it is proposed that the standards and procedures as prepared by the ASBO School Accounting Research Committee be formally adopted as follows:

"1. A school system's financial accounting structure should be organized and operated on a fund basis. The over-all financial accounting structure should be on a double-entry basis with ledgers in which all financial transactions are recorded. The accrual basis of accounting for revenue and expenditures should be used.

"2. Each school system should adopt and record an annual budget whether required by law or not, and the financial accounting structure should provide budgetary control over the school system's revenue and expenditures. Revenue should be classified by fund, source, and type. Expenditures should be classified by fund, function, and object.

"A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports. In the United States the standard recognized classification is recommended by the Office of Education, U. S. Department of Health, Education, and Welfare. In Canada the classification is recommended by the Department of Education of each Province.

"3. A school system's financial accounting structure should incorporate in its records such accounting information necessary to make it possible to show compliance with all applicable local provisions and present fairly the financial position and results of operations of the respective funds of the school system in conformity with generally accepted accounting principles. Where these two objectives are in conflict, generally accepted accounting principles take precedence in financial reporting.

"Supplemental schedules can be used to comply with the financial reporting requirements of governmental agencies.

"4. The fixed assets accounts should be maintained on the basis of original cost. An independent appraisal value may be used if the original cost is not available. In the case of gifts, the fair market or appraised value at the time received should be used.

"5. Inventories of supplies, materials, and fixed assets should be kept in subsidiary records controlled by accounts in the general financial accounting system. Physical counts of the above items should be taken at least annually and the general and subsidiary ledgers must be made to agree with such counts. Appropriate action should be taken to rectify all major discrepancies.

"6. Cost analysis systems should be established. The cost analysis system should be reconcilable to the general accounting records and should provide for the measurement of all the elements of costs incurred to accomplish a purpose, to carry on an activity or operation, or to complete a unit of work, a program or a specific job. Depreciation of fixed assets is a factor in computing accurate educational costs.

"7. Financial statements and reports showing the current condition of budgetary and proprietary accounts should be prepared monthly during the fiscal period to control financial operation. At the close of each fiscal year, a comprehensive annual financial report covering the financial position of the school system should be prepared and published following an outside independent audit which includes statements of scope and opinion as to the compliance with generally accepted accounting principles.

"A single set of consolidated financial statements for all funds and account groups will not fairly present financial position and results of operations. Therefore, separate financial statements for each fund or group of accounts are required.

"The individual balance sheets and statements of revenue and expenditures of the respective funds and groups of accounts should also be presented in combined statement form. In school systems a combined financial statement is a single statement that displays the accounts of individual funds and groups of accounts in separate, adjacent columns.

"A clear distinction should be made between expenditures and encumbrances (commitments).

Glossary of terms

"**ACCRUAL BASIS OF ACCOUNTING**: The accrual basis of accounting records revenue when earned or when levies are made. Expenditures are recorded as soon as they result in liabilities for benefits received. The cash basis of accounting is not permissible because it does not accurately present the financial position of the school system.

"**DOUBLE ENTRY SYSTEM**: Double entry is a system of analyzing and recording each financial transaction by means of a self-balancing entry as it affects the assets, liabilities, fund equity, revenue and/or expenditure accounts of a fund or group of accounts.

"**FUND**: A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts. These accounts record all assets and financial resources together with all related liabilities, encumbrances (or commitments), reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Every school system should establish and maintain those funds required by law and sound financial administration.

"*Formal Budgetary Funds*

"**GENERAL FUND**: The general fund is the primary fund of a school system. It is created at the inception of the entity and is continued throughout the school system's existence. The general fund provides the financial structure for the continuous educational program including related revenue and expenditures.

"**SPECIAL REVENUE FUND**: Special revenue funds are created when it is deemed appropriate to account for revenue and expenditures from a special-voted tax or from other earmarked revenue sources which are designated to finance educational programs supplementary and complementary to the basic, on-going educational program. Revenues for special revenue funds arise from local, intermediate, state and/or federal sources and are classified by title. Expenditures from special revenue funds are restricted to achieving the purposes identified by the source providing the revenue.

"**CAPITAL PROJECTS FUNDS**: Capital projects funds are created to account for revenue and expenditures for acquisition of costly general fixed assets.

"**DEBT SERVICE FUNDS**: Debt service funds are created to account for the payment of interest and principal on long-term debt, revenue for which arises from special and/or restricted sources.

"*Self-Balancing Account Groups*

"GENERAL FIXED ASSETS GROUP OF ACCOUNTS: The general fixed assets group of accounts is created to account for the general fixed assets of a school system which are not accounted for in a managerial fund.

"GENERAL LONG-TERM DEBT GROUP OF ACCOUNTS: The general long-term debt group of accounts is created to record all outstanding general bonds and/or other long-term debts of the school system, retirement of which is to be provided by revenue designated for that purpose.

"*Managerial Funds*

"INTRA-SCHOOL SYSTEM SERVICE FUNDS: Intra-school system service funds are created to account for the financing of special activities and central services performed by a designated unit for other operating units within the same school system. Generally, they are intended to be self supporting.

"ENTERPRISE FUNDS: Enterprise funds are created to account for the financing of service where all or most of the cost involved is recovered by charges to users of such services.

"TRUST FUNDS: Trust funds are created by trust instruments directing the trustees that the principal of the trust is either expendable or nonexpendable. The principal is usually established by gifts or contributions of cash, securities, and/or other assets. Usually the net income earned is expendable as directed by the trust instrument.

"AGENCY FUNDS: Agency funds are created when cash and/or other resources are received and held by the school system as an agent for others. Among useful agency funds are the central cash imprest payroll fund and student activity funds."

THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS:

In Statement of Position 80-2, an amendment to the American Institute of Certified Public Accountant's Audit Guide *Audits of State and Local Governmental Units* dated June 30, 1980, entitled *Accounting and Financial Reporting by Governmental Units*, states: "Accordingly, financial statements presented in accordance with Statement 1 are in conformity with generally accepted accounting principles." Statement of Position 80-2 further presents paragraphs which amplify that conclusion and explain its implementation with respect to the auditor's standard report.

THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD:

The following is the "Summary Statement of the Principles" quoted from *Statement 1, Governmental Accounting and Financial Reporting Principles*, The Governmental Accounting Standards Board, March 1979, published by the Governmental Finance Officers Association of the United States and Canada, 180 North Michigan Avenue, Chicago, Illinois 60601:

"Summary Statement Of The Principles

"ACCOUNTING AND REPORTING CAPABILITIES

"1. A governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the financial position and the results of financial operations of the funds and account groups of the governmental unit in con formity with generally accepted accounting principles; and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

"FUND ACCOUNTING SYSTEMS

"2. Governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

"TYPES OF FUNDS

"3. The following types of funds should be used by state and local governments:

Governmental Funds

(l) The General Fund--to account for all financial resources except those required to be accounted for in another fund.

(2) Special Revenue Funds--to account for the proceeds of specific revenue sources (other than special assess ments, expendable trusts, or for major capital pro jects) that are legally restricted to expenditure for specified purposes.

(3) Capital Projects Funds--to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, Special Assessment Funds, and Trust Funds).

(4) Debt Service Funds--to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

(5) Special Assessment Funds--to account for the financing of public improvements or services deemed to benefit the properties against which special assessments are levied.

Proprietary Funds

(6) Enterprise Funds--to account for operations (a) that are financed and operated in a manner similar to private business enterprises--where the

intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

(7) Internal Service Funds--to account for the financing of goods or services provided by one department or agency to other departments or agencies of the governmental unit, or to other governmental units, on a cost reimbursement basis.

Fiduciary Funds

(8) Trust and Agency Funds--to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds. These include (a) Expendable Trust Funds, (b) Nonexpendable Trust Funds, (c) Pension Trust Funds, and (d) Agency Funds.

"NUMBER OF FUNDS

"4. Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

"ACCOUNTING FOR FIXED ASSETS AND LONG-TERM LIABILITIES

"5. A clear distinction should be made between (a) fund fixed assets and general fixed assets and (b) fund long-term liabilities and general long-term debt.

a. Fixed assets related to specific proprietary funds or Trust Funds should be accounted for through those funds. All other fixed assets of a governmental unit should be accounted for through the General Fixed Assets Account Group.

b. Long-term liabilities of proprietary funds, Special Assessment Funds, and Trust Funds should be accounted for through those funds. All other unmatured general long-term liabilities of the governmental unit should be accounted for through the General Long-Term Debt Account Group.

“VALUATION OF FIXED ASSETS

“6. Fixed assets should be accounted for at cost or, if the cost is not practicably determinable, at estimated cost. Donated fixed assets should be recorded at their estimated fair value at the time received.

“DEPRECIATION OF FIXED ASSETS

“7. a. Depreciation of general fixed assets should not be recorded in the accounts of governmental funds. Depreciation of general fixed assets may be recorded in cost accounting systems or calculated for cost finding analyses; and accumulated depreciation may be recorded in the General Fixed Assets Account Group.

b. Depreciation of fixed assets accounted for in a proprietary fund should be recorded in the accounts of that fund. Depreciation is also recognized in those Trust Funds where expenses, net income, and/or capital maintenance are measured.

“ACCRUAL BASIS IN GOVERNMENTAL ACCOUNTING

“8. The modified accrual or accrual basis of accounting, as appropriate, should be utilized in measuring financial position and operating results.

a. Governmental fund revenues and expenditures should be recognized on the modified accrual basis. Revenues should be recognized in the accounting period in which they become available and measurable. Expenditures should be recognized in the accounting period in which the fund liability is incurred, if measureable, except for unmatured interest on general long-term debt and on special assessment indebtedness secured by interest bearing special assessment levies, which should be recognized when due.

b. Proprietary fund revenues and expenses should be recognized on the accrual basis. Revenues should be recognized in the accounting period in which they are earned and become measureable; expenses should be recognized in the period incurred, if measurable.

c. Fiduciary fund revenues and expenses or expenditures (as appropriate) should be recognized on the basis consistent with the fund's accounting measurement objective. Nonexpendable Trust and Pension Trust Funds should be accounted for on the accrual basis; Expend able Trust Funds should be accounted for on the modified accrual basis. Agency Fund assets and liabilities should be accounted for on the modified accrual basis.

d. Transfers should be recognized in the accounting period in which the interfund receivable and payable arise.

"BUDGETING, BUDGETARY CONTROL, AND BUDGETARY REPORTING

"9. a. An annual budget(s) should be adopted by every governmental unit.
   b. The accounting system should provide the basis for appropriate budgetary control.
   c. Budgetary comparisons should be included in the appropriate financial statements and schedules for governmental funds for which an annual budget has been adopted.

"TRANSFER, REVENUE, EXPENDITURE, AND EXPENSE ACCOUNT CLASSIFICATION

"10. a. Interfund transfers and proceeds of general long-term debt issues should be classified separately from fund revenues and expenditures or expenses.
   b. Governmental fund revenues should be classified by fund and source. Expenditures should be classified by fund, function (or program), organization unit, activity, character, and principal classes of objects.
   c. Proprietary fund revenue and expenses should be classified in essentially the same manner as those of similar business organizations, functions, or activities.

"COMMON TERMINOLOGY AND CLASSIFICATION

"11. A common terminology and classification should be used consistently throughout the budget, the accounts, and the financial reports of each fund.

"INTERIM AND ANNUAL FINANCIAL REPORTS

"12. a. Appropriate interim financial statements and reports of financial position, operating results, and other pertinent information should be prepared to facilitate management control of financial operations, legislative oversight, and where necessary or desired, for external reporting purposes.
   b. A comprehensive annual financial report covering all funds and account groups of the governmental unit — including appropriate combined, combining, and individual fund statements, notes to the financial state ments; schedules; narrative explanations; and statistical tables—should be prepared and published.
   c. General purpose financial statements may be issued separately from the comprehensive annual financial report. Such statements should include the basic financial statements and notes to the financial statements that are essential to fair presentation of financial position and operating results (and changes in financial position of proprietary funds and similar Trust Funds)."